Wednesday July 17 1996

S lower

y loss of year

FINANCIAL TIMES

Corporate networks
Satellites offer a flexible alternative
Technology, Page 8

New York City
Back to the budgetary brink
Page 6

Renault
Asleep at the wheel
Page 15

Today's survey
Inward investment into the UK
Separate section

World Business Newspaper

THURSDAY JULY 18 1996

France to withdraw 17,000 troops from Germany by 2000

France yesterday announced a massive reduction of its military forces in Germany, leaving only 3,000 French troops in its eastern neighbour by the end of 1999, compared with about 20,000 at present. The troop withdrawals, part of a comprehensive streamlining of France's armed forces, may heighten tensions between France and Germany over military co-operation. The move could also encourage other Nato members with large forces in Germany to follow suit. Page 12

Mercedes-Benz executive quits: The head of Mercedes-Benz's commercial vehicle division, Bernd Gottschalk, resigned over "different views" about the company's division of responsibilities, according to the group. Page 13

Ford Motor, the US car company, surprised the stock market with a 21 per cent jump in net income in the second quarter to $1.9bn. Page 13

US plan to protect troops from terrorists: The Pentagon is planning a sweeping initiative to protect US troops based overseas from nuclear, chemical and biological attacks by terrorists, defence secretary William Perry said. Page 7

Grundig closes Malaysian plant: Grundig (Malaysia), part of Philips' loss-making German subsidiary, is to close its plant in Penang in a further setback for the Malaysian island which had become a booming centre for electronics manufacturers. Page 12

UK insurers act over genetic testing: The UK insurance industry plans to appoint a genetic adviser to help companies formulate a policy on the controversial issue of genetic testing. Page 12

Gloomy prediction for Swiss economy: Switzerland's short-term economic outlook is "bleak", says the Organisation for Economic Co-operation and Development. It expects the economy to grow by 0.5 per cent in the current year and unemployment to fall only slightly next year. Page 3

MGM may be floated in next few years: MGM, the US film business bought for $1.3bn by Australian media group Seven Network and Kirk Kerkorian's Tracinda group, is likely to be floated in the next three to five years, Seven's chairman said. Page 13; Lex, Page 12; News Corp buys New World, Page 14

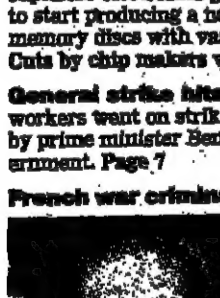
US calls for target on greenhouse gases: The US called for a binding global target for reducing emissions of greenhouse gases which are warming the earth's atmosphere but declined to propose a specific target or set a time limit. Page 7

General Electric, the largest US company by market value, produced record earnings in its second quarter, rising 11 per cent to $1.9bn. Page 14

Fujitsu plans to start new disc production: Japanese electronics group Fujitsu plans next year to start producing a new generation of computer memory discs with vast storage capacity. Page 13; Cuts by chip makers widen, Page 15

General strike hits Israel: Half a million Israeli workers went on strike over plans for budget cuts by prime minister Benjamin Netanyahu's new government. Page 7

French war criminal dies in prison hospital:



Paul Touvier (left), the only Frenchman jailed for crimes against humanity in the second world war, died aged 81 in a prison hospital near Paris. Touvier, a key aide to Gestapo chief Klaus Barbie, was convicted and jailed for life in 1994 for ordering the executions by firing squad of seven Jews in reprisal for the killing of Vichy propaganda chief Philippe Henriot by the French Resistance. Page 2

Alitalia, Italy's troubled national airline, is expected to incur losses and restructuring costs this year of L1,200bn ($782m). Page 2

Kiev crackdown in wake of bomb attack: The Ukrainian government will introduce "elements" of a state of emergency in the wake of this week's bomb attack on prime minister Pavlo Lazarenko. It blamed the explosion on criminals and communists opposed to plans to restructure the coal industry. Page 3

Rise in number of US adult smokers: The number of adult smokers in the US rose slightly last year in spite of increasingly tough restrictions on smoking in public places. Page 6

STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	5,386.87	(+28.11)
NASDAQ Composite	1,061.68	(+28.21)
Europe and Far East		
CAC40	[illegible]	[illegible]
DAX	[illegible]	[illegible]
FT-SE 100	[illegible]	[illegible]
Nikkei	[illegible]	[illegible]

US LUNCHTIME RATES

Federal Funds	[illegible]	
3-mth Treas Bills: Yld	[illegible]	
Long Bond	[illegible]	
Yield	[illegible]	

OTHER RATES

UK: 3-mo Interbank	[illegible]	[illegible]
UK: 10 yr Gilt	[illegible]	[illegible]
France: 10 yr OAT	[illegible]	[illegible]
Germany: 10 yr Bund	[illegible]	[illegible]
Japan: 10 yr JGB	[illegible]	[illegible]

NORTH SEA OIL (Argus)

Brent Dated	$19.53	(20.25)

GOLD

New York Comex		
Aug	[illegible]	(384.2)
London:		
close	[illegible]	(384.8)

DOLLAR

New York lunchtime		
£	[illegible]	
DM	[illegible]	
FFr	[illegible]	
SFr	[illegible]	
Y	[illegible]	
London:		
£	[illegible]	(1.5578)
DM	[illegible]	(1.4922)
FFr	[illegible]	(5.0555)
SFr	[illegible]	(1.2228)
Y	[illegible]	(109.255)

STERLING

DM	[illegible]	(2.3242)
Tokyo close	Y 108.35	

[illegible]

US faces fresh dispute over sanctions

EU angered by moves to punish trade with Libya and Iran

By Stephen Fidler and Guy de Jonquières in London and Nancy Dunne in Washington

The US was heading yesterday for another confrontation with its European trading partners over plans for sanctions against companies investing in Libya and Iran, only a day after acting to defuse a conflict over controversial anti-Cuban legislation.

The danger of a fresh dispute follows approval by the US Senate of an amendment to toughen proposed laws providing for punitive measures against foreign companies investing in the Libyan and Iranian oil industries.

The amendment was passed as European Union ambassadors prepared to meet in Brussels to discuss plans for possible retaliation against US legislation designed to penalise foreigners operating in Cuba.

President Bill Clinton on Tuesday bowed to widespread international protests about the Cuba legislation – the Helms-Burton Act – by delaying for six months the right to bring court cases against companies "trafficking" in confiscated Cuban assets.

However, EU officials said Mr Clinton's decision had not removed their objections to the act, or concern that the US was increasingly attempting to impose its will on allies by applying its laws beyond its borders.

They said there was still strong support in the EU for reprisals against the US. However, there was no agreement on whether they should be put into effect immediately or held in reserve and used to put pressure on Washington. Mr Ian Lang, the UK trade and industry secretary, said sanctions against the US were "quite possible. We're looking at various options".

The EU has told Washington it will react strongly if the US enacts legislation against Iran and Libya which threatens European companies. Until recently, Brussels believed that it had succeeded in getting Congress to water down its proposals.

However, this week's Senate vote has renewed doubts. The amendment goes beyond a bill passed by the House of Representatives by compelling – rather than entitling – the president to enforce sanctions on companies investing in Libya.

The amendment, sponsored by Senator Edward Kennedy, also requires the president to impose at least two sanctions on offenders from a list of options. They include export and import bans on companies, denial of US bank loans and export-import bank credits, and exclusion from US government contracts.

The vote was welcomed by Senator Alfonse D'Amato, sponsor of the Iran-Libya bill. "Our allies must understand that we must fight terrorism with action, not just platitudes. However, they seem to be more interested in profits than in closing down terrorist regimes."

The final legislation will depend on whether the House accepts the Senate amendment. The White House has not said whether, in that event, Mr Clinton would sign the bill into law.

It is rare for Congress to tie a

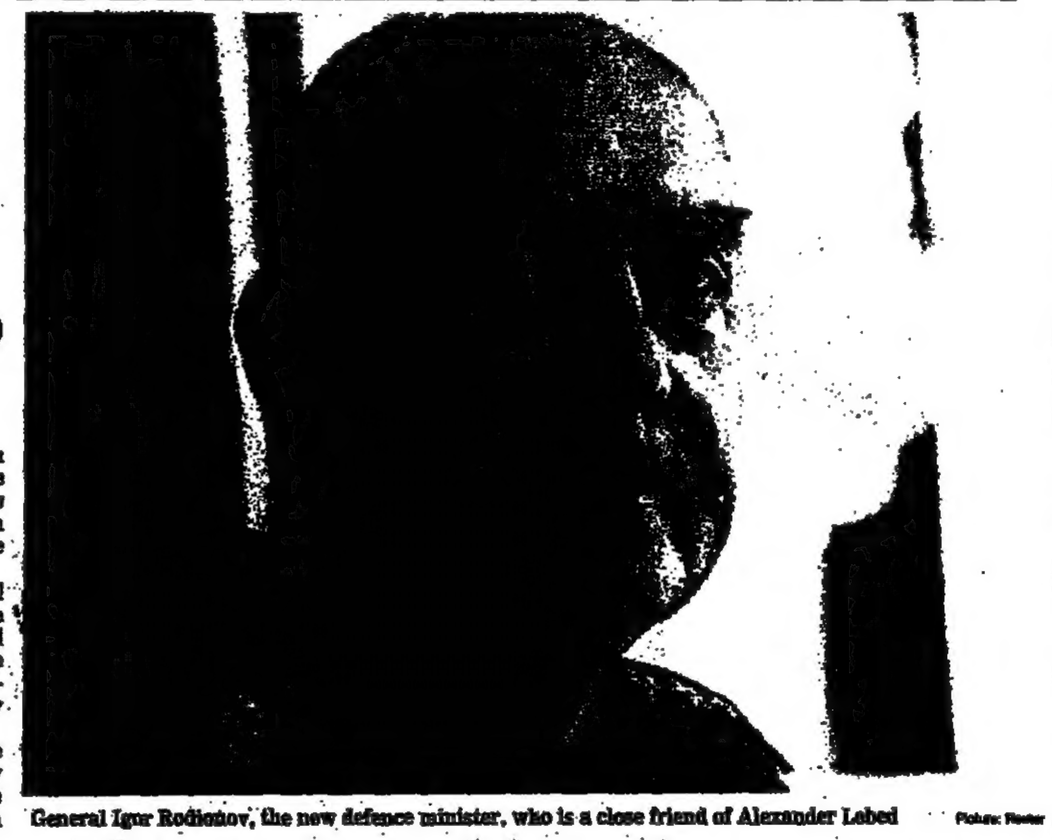
Continued on Page 12

EU unites over measures, Page 6

Nomination of minister strengthens position of security chief

Yeltsin appoints tough general to defence job

By Chrystia Freeland and John Thornhill in Moscow



General Igor Rodionov, the new defence minister, who is a close friend of Alexander Lebed — Picture: Reuter

Russian president Boris Yeltsin yesterday appointed as defence minister a man notorious for his brutal suppression of a civilian protest in the dying days of the Soviet Union.

The appointment of General Igor Rodionov will strengthen the position of his close friend and mentor, Mr Alexander Lebed, the national security chief and presidential aspirant who strongly backed him for the job.

Russian democrats have attacked the general for brutally dispersing a pro-independence protest in Georgia in 1989 with the loss of 19 lives.

An investigation by the Soviet parliament into the incident recommended that criminal charges be brought against Gen Rodionov, but many army officers passed the blame to local politicians.

His nomination is likely to disappoint western governments, which had hoped that the return of Mr Anatoly Chubais, Russia's leading market reformer, to the Kremlin this week meant the liberals had gained the upper hand.

The new defence minister is "a professional of a high standard, an elite general who combines practical and theoretical skills", Mr Lebed said yesterday. "The president has acted very wisely and all Russia will gain from this appointment."

Mr Lebed served as a colonel under Gen Rodionov at the time of the killings in Tbilisi and went on to use overwhelming force to defend ethnic Russian separatists in the former Soviet republic of Moldova.

Until yesterday, Gen Rodionov was head of the army general staff's military academy, where he was widely respected by senior officers. Like Mr Lebed, 59-year-old Gen Rodionov is a veteran of the Afghanistan conflict who believes Russia should avoid foreign conflicts and concentrate on its domestic problems.

"I do not now see an external threat to Russia. The biggest threat is from within Russia. Russia must be saved from itself because it could break apart like the Soviet Union," he said in a recent interview.

The two biggest challenges for Gen Rodionov will be to resolve the conflict in the separatist southern region of Chechnya and to turn Russia's 2m-strong conscript army into a more streamlined professional force.

After a pre-election ceasefire in Chechnya, the Russian army has again stepped up its military efforts to crush the separatist resistance.

After entering the Kremlin last month without a strong network of political allies in the government, Mr Lebed is now in a better position to secure his place as Mr Yeltsin's successor.

His chief rival is Mr Victor Chernomyrdin, the prime minister, who has already put down the politically-inexperienced former general in public.

Mr Lebed's aides said that the president had chosen Gen Rodionov at his security adviser's request. The security chief has already forged close ties with Mr Yuri Luzhkov, Moscow's influential mayor.

Yesterday Mr Yevgeny Nazdratenko, the governor of the Primorsky region, appealed directly to Mr Lebed to tackle an energy supply crisis in Russia's far east which he claimed threatened the country's national security interests.

Companies cut back overseas transfer benefits

By Robert Taylor in London

Companies are growing "less generous" in the benefits they give to senior managers working abroad, according to a study of multinational corporation transfer policies in Europe.

The study by Monks Partnership, the independent remuneration advisers, said the proportion of companies willing to fund education for children of managers on short-term transfers overseas had fallen from 42 per cent three years ago to 16 per cent this year.

Eighty per cent fund housing for overseas managers, down from 90 per cent, and the proportion receiving company-financed language training dropped from 91 per cent in 1993 to 80 per cent this year.

The number of companies which consider expatriates should be paid the same rates as local nationals has increased to 51 per cent from 36 per cent.

The survey covers 54 companies – including Alcatel, Barclays Bank, Bertelsmann, British Telecommunications, Courtaulds, Hertz, Inchcape, Levi Strauss, Mars, National Grid, Pepsico International, Philip Morris, Pilkington, Redland, Tate and Lyle, TI Group and United Utilities – with 687 business units or subsidiaries in 24 European countries.

The companies made 2,084 senior management transfers in the year to May. Forty two per cent said they expected the number of transfers to increase in the next 12 months.

Their main reasons for transferring senior managers within European operations is the need for them to gain international experience, the need to transplant company culture or skills and the development of regional or product-based structures.

Companies find American, British, Dutch and Australian senior managers are the most willing movers while the most reluctant are the French, Germans, Italians, Spanish and Swiss.

Companies say transfers are made difficult by managers' concerns over dual careers in the family, children's education and "family resistance". But concerns over foreign languages and "perceived quality of life" were of limited importance in discouraging senior managers from accepting relocation.

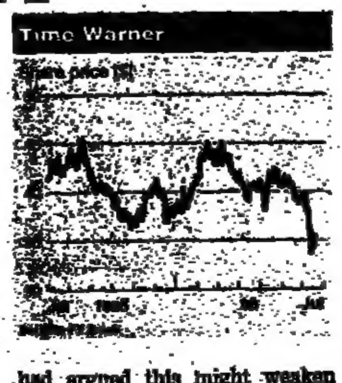
The survey says companies find it hard to convince managers to accept the same pay and conditions as local workers, unless practices and pay levels there are similar to those at home.

The survey distinguishes between senior managers sent abroad for less than a year and

Continued on Page 12

Time Warner's takeover of Turner approved in principle

By Tony Jackson in New York



The contentious $7.5bn takeover of Turner Broadcasting System by rival media group Time Warner has been approved in principle by the US competition authorities.

The deal, first announced last August, had been held up by concerns over competition in the US cable TV industry.

Time Warner cautioned that the deal was not yet final, since a definitive agreement still had to be reached with the Federal Trade Commission's staff and then approved by the FTC commissioners.

However, it is thought that final approval could be reached as early as the end of this week.

The stumbling block in negotiations had been the 21 per cent stake in Turner held by Tele-Communications Inc (TCI), the largest US cable TV operator. Under the original deal, this stake would have converted into a 9 per cent holding in Time Warner.

Since Time Warner is the next biggest cable operator, the FTC had argued this might weaken competition between the two.

Under the new arrangement, the 9 per cent Time Warner stake is to be hived off as a separate company, owned by shareholders in TCI's subsidiary Liberty Media – through which it owns its Turner shares.

Under terms yet to be finalised, there will be safeguards against TCI exercising control.

This represents some loss of control for Time Warner, since under the original agreement voting rights in the 9 per cent stake were to be held by Mr Gerlad Levin, Time Warner's chairman.

In another substantial change to the original deal, contracts under which TCI was to secure Turner programming at a discount over the next 20 years will be scrapped. A new contract will now be drawn up six months after the takeover goes through.

TCI said the spin-off plan was "creative and beneficial", since it would allow Liberty Media shareholders to participate directly in the new Time Warner.

Shares in all the companies involved rose sharply yesterday. In late trading, Time Warner had risen 9 per cent, up $3 to $36⅝. Turner's shares were up by more than 10 per cent, up $2¼ to $26¾. TCI's "B" shares had risen 9 per cent, up $1¼ at $15¾, while Liberty Media was up $1⅛ to $23⅞.

TCI, whose chairman Mr John Malone is one of the most powerful figures in US media, denied that it had "ever aspired to participate in the management of Time Warner".

It said that renegotiating its Turner contracts under new ownership should not prove difficult.

CONTENTS

LONDON • LEEDS • PARIS • FRANKFURT • STOCKHOLM • MADRID • NEW YORK • LOS ANGELES • TOKYO • HONG KONG

Erbakan soothes fears of Turkish business

By John Barham in Istanbul

Anxiety in the executive suites of Istanbul, Turkey's business capital, has eased in the 10 days since Mr Necmettin Erbakan became the country's first Islamist prime minister.

Mr Erbakan has pleasantly surprised the country's business leaders by ditching his anti-capitalist rhetoric since his Refah party became the larger partner in a coalition with Mrs Tansu Çiller's centre-right True Path party.

"We do not intend to interfere in the free market at all," he told parliament this week.

Mr Abdullatif Şener, Refah's finance minister, shook financial markets this week with threats to cap interest rates, now over 30 per cent in real terms, on the Treasury's snowballing domestic debt. However, this was quickly denied.

Markets were also concerned by his decision last week to increase public sector wages well above inflation. But business hopes Mr Erbakan will retreat from promises to offer incentives and tax breaks to farmers, the poor and small traders – Refah's core supporters – and to waive their debts.

There are limits to Mr Erbakan's populism. For instance, Turkey's customs union with the EU restricts state aid and requires open markets.

Business is giving Mr Erbakan the benefit of the doubt. Mr Yavuz Canevi, chairman of TEB, Turkey's most conservative bank and head of the foreign investors' association, says: "New governments tend to talk too much. They will sit back and see the real situation in four to six weeks and start thinking seriously."

Some believe Mr Erbakan could embark on an ambitious reform programme to reduce inflation, now 83 per cent a year, by restructuring the deficit-ridden state.

One chief executive repeated a commonly-held view that he would not be in power long. "But the people needed to experience Refah to know what they are like, otherwise they would always keep saying, 'Ah, if only Refah were in charge things would be better'."

Real pessimists keep quiet in public, wary of offending Ankara, which can make or break a company.

While the business world is relieved Mr Erbakan is not trying to impose Islamic codes on Turkey, many fear the country could soon be engulfed by a severe economic crisis.

Government spending has increased sharply and the budget deficit could rise by half to 10 per cent of gross domestic product this year. Economists fear the current account deficit may hit $6bn-$7bn, although central bank economists say it will only be half as big.

Yet there is great confidence that business will bounce back from a severe setback, as it did in 1994 when the economy contracted by 6 per cent following a balance of payments and financial market crisis.

Local and foreign executives are confident that Turkey will always remain a promising market. Mr Jacques Chauvet, director general of Renault's Turkish operation, says: "There are only 48 cars per thousand people here. In Europe the rate is 480 so the potential is great."

But a business consultant who watches Refah closely warns: "Big companies think they can live with Refah. I am not so sure. It will make the rich pay for its programmes." And neither should Refah be written off: "People have been [underestimating] Refah for years, but they keep growing."

THE FINANCIAL TIMES

Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 5964481. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. Shareholder of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.

GERMANY:
Responsible for Advertising: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu Isenburg. ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.

FRANCE:
Publishing Director: P. Maraviglia, 42 Rue La Boétie, 75008 PARIS. Telephone (01) 5376 8254, Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.

SWEDEN:
Responsible Publisher: Hugh Carnegy 468 618 6088. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.

Controversial legislation expected to spark fierce battle in parliament

Italy draws up new media rules

By Andrew Hill in Milan

The Italian government yesterday unveiled draft legislation which aims to impose order on the fast-expanding communications sector by limiting media ownership and establishing a telecoms and broadcasting regulator.

The decision had been postponed twice in the past fortnight as state and commercial television networks have lobbied the government for changes. The proposals are expected to face a fierce parliamentary debate.

Mediaset, the main commercial broadcaster, complained that the measure was biased in favour of Rai, its state-owned rival, and vowed to seek alterations in parliament. Mediaset is controlled by Fininvest, the family holding company of Mr Silvio Berlusconi, leader of the rightwing opposition.

The draft law – and a related bill which has yet to be approved by the government – will not force Mediaset or Rai to sell any channels. Mediaset would have to transform one of its three channels into a satellite or cable service or reduce its overall terrestrial audience, while one of Rai's three channels would become a regional network, under Rai control.

Mr Antonio Maccanico, post and telecoms minister, said the government would use a decree to push through the draft law if it faced obstruction in parliament. New rules on media ownership must be in place by the end of August to avoid breaching a constitutional court ruling, and the government wants to speed the long-awaited sale of its majority stake in Stet, the telecoms holding company.

Mr Michele Tedeschi, chairman of Iri, the state holding company which controls Stet, said yesterday it was already too late to expect privatisation of Stet this year, as the government originally hoped. "As things stand, we won't manage to privatise Stet in the autumn, but there's still a good chance in spring and we're aiming at that," he said.

Shares in Mediaset, which began trading in Milan on Monday, fluctuated wildly yesterday morning as details of the draft were unveiled in Rome.

But broadcasting experts said Mediaset's complaints seemed exaggerated. For example, Mr Maccanico cleared Mediaset and its allies to bid for Italy's third mobile telephone licence in the autumn, whereas Rai would have to establish a costly regional network.

"Mediaset may have lost the elections, but on television they haven't lost anything," said Mr Francesco Siliato, an independent media analyst based in Milan.

Mr Fedele Confalonieri, Mediaset's chairman, welcomed the fact that Mediaset would not have to give up a channel, and admitted that the final draft was better than earlier attempts, which Mediaset had dubbed "economic vandalism". Rai said it felt "reassured" by the final draft.

Under the bill, Mediaset would have to reduce the proportion of commercial breaks from 18 per cent to 16 per cent from January next year until the end of August, when the authority would review the situation.

Mr Confalonieri said such a reduction could cut about L150bn ($100m) from Mediaset's annual turnover of around L3,000bn. Mediaset would also be affected by a ceiling of 30 per cent on its share of overall revenues from publicity and licence fee, six points below its current share.

If the law is approved, the regulatory authority will resemble the FCC in the US, which covers both telecoms and media, rather than the UK model of separate regulators. It will be made up of two four-person committees – one for networks and infrastructure, the other for products and services – with a single chairman.

Parties hint at compromise over how to tackle sensitive issue of constitutional reform

Italy's centre-left governing alliance yesterday proposed that constitutional reform – the most sensitive issue facing the new legislature – be tackled by a special commission in each of the two houses of parliament, writes Robert Graham in Rome.

The proposal, made at the start of a parliamentary debate on reforming the 1948 constitution, envisaged two 30-strong commissions. But this would give the government more direct control over the content of the reforms, so the rightwing opposition, headed by former premier Silvio Berlusconi, yesterday proposed a more autonomous constituent assembly elected by proportional representation.

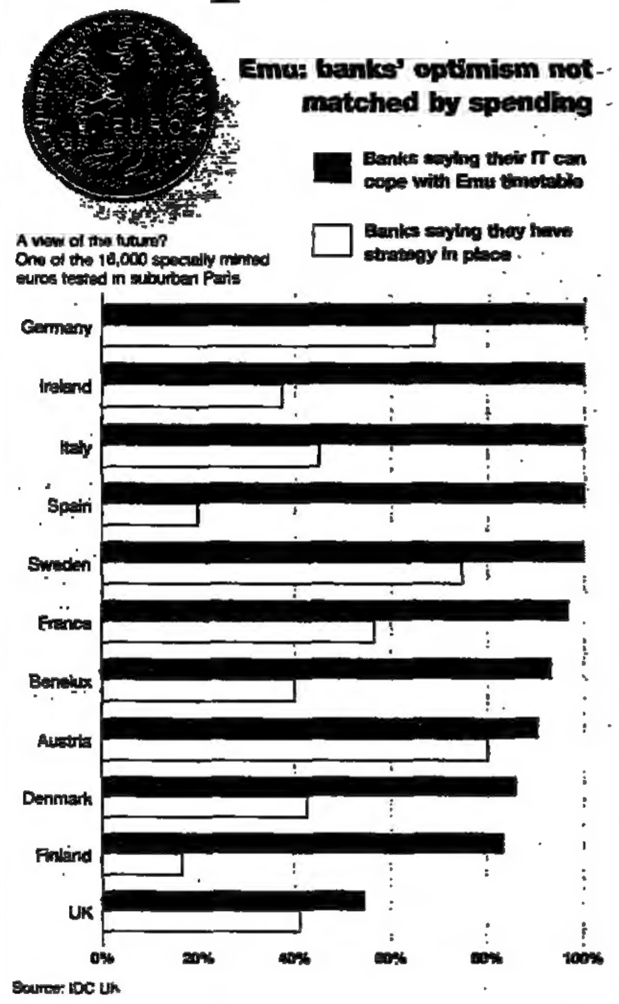
Yesterday, speakers on both the government and opposition side hinted that a compromise was possible. Mr Gianfranco Fini, leader of the rightwing National Alliance, said he was prepared to examine alternative formulas as long as there was a clear timetable for reform.

Mr Massimo D'Alema, leader of the Party of the Democratic Left, the dominant partner in the government, said there had to be "mutual recognition by the majority and the opposition that there is a shared responsibility for success or failure". But Mr Umberto Bossi, head of the populist Northern League, told parliament it was too late for constitutional reform since the unity of the Italian state could no longer be guaranteed. It was better to accept two Italys with separate currencies, with the north – his ill-defined state of Padania – acquiring autonomy via a referendum.

Behind yesterday's set-piece speeches by political leaders lay the mounting reservations of Mr Massimo D'Alema about the two-month-old premiership of Mr Romano Prodi. Mr D'Alema is reluctant to go ahead with a shake-up of the Italian state without the certainty of a government which can last a good 18 months.

Mr D'Alema, the real power behind the scenes, has yet to demonstrate his full conviction in Mr Prodi as premier. These uncertainties have in turn been reflected in the financial markets.

Computer chaos warning over Emu



IBM fears the severe shortage of skills may cause businesses to collapse, writes Gillian Tett

European businesses could face computer chaos if European monetary union starts as planned in 1999, the US computing group IBM has warned.

The company says there will be a severe shortage of skills to cope with the transition to the single currency because it coincides with the computing overhauls needed to cope with the end of the century.

IBM and other industry groups warn that banks unable to manage could lose the confidence of customers and fail. So severe is the problem that IBM argues there is a compelling case for delaying Emu until after the year 2000.

Many banks and businesses, however, reject IBM's gloomy conclusions, suspecting that computing groups are simply seeking business. A recent survey by the International Data Corporation, for example, shows that 90 per cent of banks believe their information technology infrastructure will cope with Emu. But that survey also shows that only half have an IT strategy for Emu and a mere 15 per cent have allocated money.

IBM's gloomy prognosis is shared by most of the computing industry. Mr Colin Stringer of the Hoskyns consultancy group, which recently helped the German banking association draw up Emu guidelines says: "IT resources will be severely depleted with Emu. That means some banks will certainly fail."

Taken alone, changing IT systems to cope with Emu is expected to be relatively manageable, albeit expensive: Barclays bank and Deutsche Bank each calculate the cost at about £200m ($312m), implying costs of about £3.7bn for the entire EU banking industry. But Europe's computing expertise will be stretched over the next few years by the need to modify computer programmes to cope with the change of century. Some industry sources expect these changes to cost European governments and businesses some £200bn.

Signs of skills shortages are already emerging: the cost of European programmers able to read core computer codes such as Cobol, for example, has risen 30 per cent this year.

These supply problems are likely to worsen. IBM hopes to tackle the issue by sending work to India, but it argues there is not enough telecommunications capacity for this to provide a solution.

Some observers believe a new IT breakthrough could solve the problem but computing groups doubt whether there is enough time and warn that conducting two large IT projects in tandem could lead companies to fail. "Doing the projects together more than doubles the risk," says Mr Eric Hall of Bull, the French computer group.

The problem has been exacerbated because many companies are delaying their preparations for Emu until the political climate becomes clearer.

Mr Juan Amador, an associate partner of Anderson consulting, says: "Our clients are talking about starting projects about six months before the changeover. That's cutting it fine, but they want to see a real deadline."

In theory, the only businesses which need to make the changes in 1999 are wholesale banks. In practice, most IT experts expect the competitive pressures will lead many companies and retail banks to demand IT changes well before the single currency replaces national currencies in 2002.

Mr Brian Reynell, regional affairs director for the US computing group EDS in Brussels, says: "Our assumption is that most companies will want to change on day one for competitive reasons."

MEPs open their wallets to public gaze

By Lionel Barber in Strasbourg

The European Parliament yesterday agreed to open up members' business interests to public scrutiny, but the measures are limited and avoid prescribing punishment for transgressors.

The new rules require MEPs to make an annual declaration of payments in cash or kind above their parliamentary pay and expenses, and to reveal other professional or paid activities.

MEPs in Strasbourg approved the package overwhelmingly, recovering from an embarrassing setback last January when they balked at proposals laying down firm guidelines for lobbyists and tighter rules on their outside interests.

But a minority alliance of Green and Scandinavian MEPs criticised the reforms as inadequate. They said the package did not require MEPs to reveal how much money they received for activities such as consultancies and did not set limits on financial assistance.

The debate over lobbying and MEPs' outside interests is similar to the controversy in the UK, but has intensified as business and industry have woken up to the parliament's powers to amend European legislation as a result of the Maastricht treaty.

Informal estimates suggest that the European Commission accepts on average more than two-thirds of parliamentary amendments when it puts forwards legislative proposals under the Maastricht "co-decision" procedure which applies to the internal market.

MEPs rejected an attempt by Mr Brendan Connolly, a UK Conservative, to limit the ban on gifts, payments and benefits to those "which might influence the way in which they vote or the performance of their other duties".

Mr Jean-Thomas Nordmann, the Radical French MEP who led efforts to control members' financial interests, said there was no point trying to set ceilings on outside payments. "We did not want to get into scholastic disputes about the appropriate level of outside income because that is what killed the earlier proposal in January."

The parliament's new rules, due to take effect from September, are in effect an internal regulation which remains subordinate to national legislation. One of the difficulties in regulating MEPs is the absence of parallel controls over national parliamentarians.

Most EU countries do not have rules governing lobbying or pressure groups, nor do they have a register of lobbyists. Britain introduced reforms recently, but a minority of MPs still refuse to declare their outside income.

Mr Ford said the European Parliament's rules committee would shortly study a new code of conduct covering the activities of "inter groups". These are cross-national and cross-party groups of MEPs, funded by pressure groups or business, which are set up to push single issues such as animal rights and minority languages.

EUROPEAN NEWS DIGEST

EU move on sex discrimination

The European Commission said yesterday that plaintiffs and defendants should share the burden of proof in sex discrimination cases in the European Union.

"Until now, a woman who alleged breach of the principle of equality has generally had to bear the full burden of proving her case, even where certain facts were easier for her employer to establish," it said in a statement. If the legislation is adopted by EU ministers, it would apply in all Union countries except Britain, which has opted out of the EU's "social protocol".

The text also defines "indirect discrimination", saying it exists when an apparently neutral practice disproportionately disadvantages members of one sex, especially because of marital or family status – unless the aim is objectively justified.

The Commission has been pushing for legislation on the burden of proof since 1988, but its previous proposal was drawn up under treaty articles that require unanimity and was blocked by Britain. It decided to propose new legislation under the social protocol, which was introduced by the 1992 Maastricht treaty. *Reuter, Brussels*

Serbian talks on Karadzic's fate

Mr Richard Holbrooke, the architect of the Dayton peace agreement for Bosnia, yesterday held four hours of talks with President Slobodan Milosevic of Serbia in an effort to prop up the agreement by securing the removal of Mr Radovan Karadzic, the Bosnian Serb leader who has been indicted for war crimes.

Mr Holbrooke, who was recalled by the US government from his new job as a Wall Street investment banker, said yesterday: "I cannot tell you we made any progress today and I will not characterise the talks except to say they were inconclusive and in progress." Mr Holbrooke said yesterday that Mr Ejup Ganic, Bosnian vice-president, and a trade delegation from Bosnia would meet Mr Milosevic next week in the first official visit by the Bosnian government since the outbreak of war four years ago.

■ Mr Yevgeny Primakov, the Russian foreign minister, yesterday accused the UN war crimes tribunal in The Hague of being "overpoliticised and unbalanced in the fields where it is expected to work". Russia sees the tribunal as being anti-Serbian because Serbs represent the majority of those indicted. Mr Milosevic and his former proxy, Mr Karadzic, are widely seen by western governments as most responsible for the war in Bosnia. *Laura Silber, Belgrade*

Death of French war criminal

Paul Touvier, the only Frenchman convicted of crimes against humanity committed during the second world war, died yesterday in prison, aged 81. Touvier, a key aide to Gestapo chief Klaus Barbie, was convicted in 1994 of ordering the executions by firing squad of seven Jews in reprisal for the killing of Vichy propaganda chief Philippe Henriot by the French Resistance.

Twice convicted *in absentia* for treason, Touvier was pardoned by President Georges Pompidou in 1971 at the behest of leading Roman Catholic Church officials.

But Resistance groups and Jewish survivors came forward with evidence to bring new charges, forcing Touvier back into hiding. He remained a fugitive with his wife and two children until he was arrested at a Roman Catholic priory in Nice in 1989. *AP, Paris*

Alitalia set to write off $782m

Alitalia, Italy's troubled national airline, is expected to incur losses and restructuring costs this year of L1,200bn ($782m). These figures – L400bn of losses and another L800bn in restructuring costs – were given yesterday in evidence to parliament by Mr Michele Tedeschi, the head of Iri, the state holding company which controls Alitalia.

Mr Tedeschi also revealed Iri had handed over L1,000bn to Alitalia as part of the first L1,500bn tranche of an eventual L3,000bn capital injection to help with a reorganisation of the flag carrier. The transfer had been essential to cover Alitalia's obligations to financial institutions. However, he did not elaborate on how Iri, itself in a delicate financial plight, would be able to find the remaining funds for the capital increase. Alitalia's current indebtedness stood at L3,400bn, plus a further L1,200bn in leasing and rental commitments, he said. The restructuring plan, announced on June 19 and involving 2,800 job losses, was compatible with EU competition rules, he insisted. *Robert Graham, Rome*

Pact ends Euro-card dispute

MasterCard International and Europay International, the card payments organisations, have settled a long-running dispute with an agreement aimed at clearing up the confusion between their card brands.

Europay, which handles the MasterCard brand in continental Europe in tandem with its own Eurocard credit card, as well as the Eurocheque ATM card, has agreed to a new combined logo which is intended to make it clearer to MasterCard holders that their cards are accepted by Eurocard retailers.

The new agreement allows the MasterCard brand to be prominently displayed in shop windows, while not discarding the brand strength Eurocard has built up especially in Germanic countries.

Just a few weeks ago, it appeared possible that the gap between MasterCard and Europay was so wide that they might dissolve their 30-year-old alliance. *George Graham, London*

Germans halt row over a pfennig

The German federal cartel office has abandoned its action against the east German utility Vereinigte Energiewerke AG (VEAG) for over-pricing.

A comparison with other utilities showed VEAG was charging one pfennig more per kilowatt hour than the others, the cartel office said, but the higher costs were permissible as VEAG had higher production costs because of the high proportion of brown coal used in its energy production process. *Reuter, Berlin*

Commission approves Atlas telecoms 'supercarrier'

By Neil Buckley in Brussels

France Télécom and Deutsche Telekom yesterday gained long-delayed final clearance from the European Commission to create their "supercarrier" alliance, Atlas, and global alliance with Sprint of the US, called Global One.

But Mr Karel Van Miert, competition commissioner, warned that approval of the ventures – which aim to provide "seamless" telecommunications services to businesses worldwide – was on condition that full competition was created in the German and French telecoms markets.

He said Atlas and Global One's main services would be authorised the moment France and Germany granted the first telecommunications licences to operators of alternative infrastructures. He expected the first to be awarded shortly.

But France Télécom and Deutsche Telekom must wait until their domestic telecoms markets, including voice telephony, are fully liberalised before they can incorporate within the Atlas alliance their national data networks, Transpac and T-Data. Full liberalisation is due to take place by January 1 1998.

The commissioner said the alliance would be reviewed in 2001, when the Commission would also review progress of the Concert alliance between British Telecom and MCI of the US, which has full regulatory approval.

"We will survey with great attention the way the two companies behave. All the conditions must be well respected. If they are not we will very quickly become involved again," he said.

As expected, he imposed conditions on the venture:

- France Télécom must sell Info AG, its data network services subsidiary, which competes in the German market with T-Data.
- FT and DT must allow non-discriminatory access to their networks to competing low-level data service operators.
- They must treat all third-party competitors which want to use their facilities in a non-discriminatory way.
- No cross-subsidies between the groups are allowed, and Atlas and Global One must have separate accounting systems from FT and DT.
- Atlas and Global One must conclude separate contracts for FT and DT to act as their distributors in France and Germany.

Plans for Atlas were first notified to the Commission in December 1994, but the Commission demanded several changes – including the commitment to liberalise alternative infrastructures – before a preliminary decision to clear it last December.

There have been complaints about the deal from BT, but yesterday the UK operator said it was satisfied.

The third of the global supercarriers, AT&T World Partners, is still awaiting regulatory approval from Brussels.

The Commission also cleared the Dutch television joint venture Holland Media Groep, between RTL, owned by Luxembourg's CLT, and Veronica of the Netherlands.

Brussels places single condition on merger between Ciba-Geigy and Sandoz

The European Commission yesterday cleared the merger of Swiss companies Ciba-Geigy and Sandoz to create Novartis, the world's second-largest drugs group, write Neil Buckley in Brussels and Bill Hall in Zurich. It imposed only one condition in the animal healthcare sector.

Mr Karel Van Miert, competition commissioner, gave the go-ahead on condition Ciba and Sandoz granted non-exclusive licences to competitors for methoprene, an active ingredient in parasite treatments for pets. Mr Daniel Vasella, president designate of Novartis, said the condition would have a negligible impact, and hoped the merger would be cleared by the US authorities by the autumn.

The two companies control three of the five active ingredients available worldwide for anti-flea treatments for dogs and cats, and Mr Van Miert said access to methoprene was "of particular importance to competitors".

In response to his concern that their strength in research and development could lead to a combination of patents in gene therapy that would exclude competitors, the companies said they were "ready to use their influence" to ensure that non-exclusive licences were granted for future patents for gene therapy to treat tumours.

In general, the commissioner concluded there were enough other companies with "critical mass" in the research and development field to compete with Novartis. The Commission said the merger affected almost 100 product markets, but was "largely complementary". Even where there were overlaps, there were no dominant positions.

Crackdown by Kiev after bomb attack

By Chrystia Freeland in Moscow

The Ukrainian government will introduce "elements" of a state of emergency in a sharp reaction to a bomb attack on the prime minister earlier this week, the *authorities* said yesterday.

Mr Pavlo Lazarenko, the prime minister, and other senior officials yesterday blamed Tuesday's *explosion on* "criminals" and "communists" opposed to the newly *appointed* premier's plans to restructure Ukraine's ailing coal industry.

Other observers have speculated that the blast was part of the *intensifying* battle *for* economic control waged by rival, regionally-based political clans. But, emboldened by its recent success in pushing through a contentious constitution, the Kiev leadership said this week's violence would strengthen its resolve to press ahead with its plans to overhaul the energy sector.

To make that possible, Mr Volodymyr Horbulin, the head of Ukraine's National Security Council, said the government planned tough new security measures, including dismissals of incompetent and corrupt *government officials, stricter* control over the use of state funds and more elaborate personal protection for the country's leaders.

"I cannot say this is a *state* of emergency but elements of a state of emergency will be introduced," Mr Horbulin said. "The task before us is not an *easy one*, but if we *do not start* to solve these problems I cannot be sure that by autumn we will be able to speak of Ukraine as an independent state."

Mr Horbulin said Tuesday's blast, which damaged two cars in a government motorcade but did not injure the prime minister, was "more an economic than a political act".

Mr Lazarenko, who was on his way to meet striking coal miners in eastern Ukraine when the bombers struck, said the attack was an attempt to prevent him from making the journey.

"The idea was to keep me away from the Donbass. I see no other reason for the attack," he said. "A concrete examination of how to stabilise the coal industry had forced criminal structures to use explosives with the aim of wip*ing me out completely*."

After the explosion, Mr Lazarenko carried on with his planned trip to Donetsk, the heart of the Donbass, where he told disgruntled miners the government would pay $67m of the $80m wage arrears.

But he *said* it was *the* last time Kiev would bail out the largely exhausted coal sector and insisted that the government would press on with *plans to close* up to 30 *mines* this year.

Mr Lazarenko also sacked several coal mine directors and regional officials. Donbass regional leaders and coal mine managers have been accused of fomenting strikes in order to extract further subsidies from the government.

Some analysts said the blast was part of the battle for control of Ukraine's natural resources *being* waged by regional political lobbies, including the Donbass group, and the faction from Mr Lazarenko's home town of Dnipropetrovsk.

But some reformist observers in Kiev welcomed the government's reaction as a sign that after five years of *dithering, the Kiev authorities* might finally be ready to steer the country in a clear direction.

"They are trying to assert *elementary control* over the situation, instead of following the usual Ukrainian habit of hiding our heads in the sand whenever things get difficult, so this is a good thing," Mr Oleksandr Tkachenko, a leading television commentator, said yesterday.

Competitive edge proves elusive as appreciation of franc prolongs recession

OECD says Swiss outlook 'bleak'

By William Hall in Zurich

The short-term economic outlook for Switzerland is "bleak", as expectations that sustained economic growth would quickly return after its longest recession since the war have evaporated, the Organisation for Economic Co-operation and Development says in its latest annual report on the country.

It expects the economy to grow by 0.5 per cent in the current year and unemployment to fall only slightly next year. Less than a year ago it was forecasting GDP growth of 1.7 per cent in 1995 and 2.3 per cent in 1996. In fact Switzerland's growth in 1995 was only 0.7 per cent, the lowest among European OECD countries.

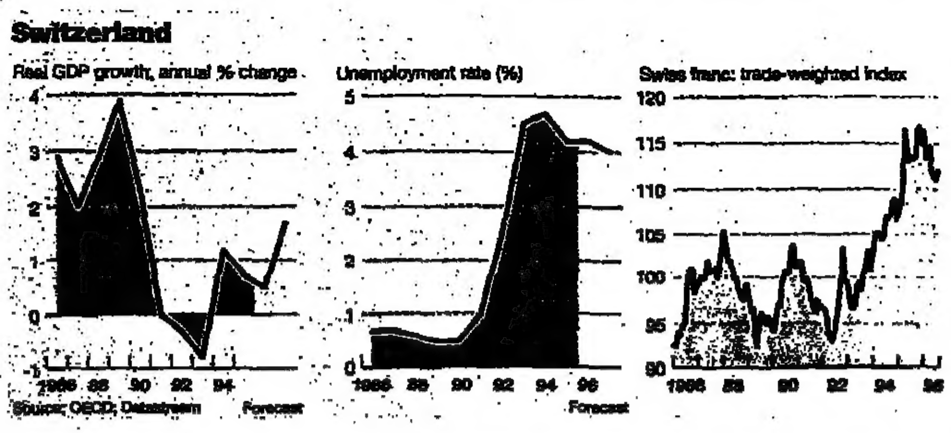
The protracted sluggishness is blamed largely on the appreciation of the Swiss franc by about 15 per cent in real terms from 1993 to 1995, resulting in a substantial loss in international competitiveness. The need to raise taxes and social security contributions, to help reduce official imbalances, particularly the deficit on the unemployment insurance fund, have also been a drag on the economy, as has the failure of the construction sector to recover from the speculative excesses of the real estate boom of the early 1990s. The OECD's downbeat growth forecast for the Swiss economy is more optimistic than some.

The Zurich-based Centre for Research of Economic Activity has just reduced its 1996 forecast for the second time this year and is now predicting a 0.1 per cent decline in Swiss GDP in 1996. The OECD says a positive feature of the current cycle is that inflation has been kept very low in spite of the temporary effects of the introduction of a general value-added tax.

Investment in machinery and equipment remained the only dynamic demand component in 1995 as businesses tried to increase productivity to offset loss of competitiveness caused by the exchange rate rise. Assuming no further real appreciation in Swiss currency in the next year or two, and that the economies of Switzerland's main trading partners strengthen from the second half of 1996, the Swiss economy should accelerate mildly in 1997 and inflation would remain low. The OECD is forecasting GDP growth of 1.7 per cent for 1997.

It says Switzerland can no longer be criticised for its "tortoise-like" approach to structural reforms. The country's medium-term prospects should benefit from a speeding up of initiatives such as a radical reform of unemployment insurance, deregulation of the domestic market, and the liberalisation of public procurement.

But the OECD believes more needs to be done, particularly in areas such as competition policy.



Zurich's trams impress economic spies

By William Hall

The OECD has found one corner of the Swiss economy which is ticking along efficiently – it describes the city of Zurich's antiquated tram system as one of the most efficient surface transport systems in Europe.

The trams offer a high-quality service, declining real price levels and *attractive season tickets, resulting in* a substantial increase in the use of public transport with "striking" gains in efficiency of road use and quality of urban life.

In most OECD cities the number of passenger trips by public transport is low compared to private transport. But since the late 1970s, Zurich has witnessed considerable growth starting *from a high base. Despite the absence* of an underground rail system, the proportion of trips by public transport is estimated at around 42 per cent, significantly higher than any other European *city of comparable size*.

The excellent service on Zurich's tram system has produced striking gains in efficiency of road use and quality of urban life

The number of trips on Zurich's public transport system rose in a decade from 210m a year to 310m in the early 1990s, though it has declined slightly *during the recession. The OECD* describes Zurich's success as "remarkable" given that it is one of Europe's wealthiest cities, with a car ownership rate of 391 per 1,000 inhabitants. Zurich's transport strategy is based on reallocating road space from private vehicles to public transport and provid*ing incentives to use public* rather than private modes of transport.

Travelcards cost SF7.20 ($5.90) a day, or SFr70 a month, services are frequent – up to eight trams an hour on 13 routes – and the timekeeping is phenomenal. Nowhere in Zurich seems more than a 15-minute ride from the city centre. Computerised traffic lights and rigorous enforcement of segregated traffic lanes mean the trams always have right of way over private vehicles.

The report on Zurich's 136.9km tram system is particularly encouraging in another respect – it suggests that OECD economists visiting Switzerland's financial capital have been taking the tram rather than wasting taxpayers' money on Zurich's expensive taxis.

Juppé in Corsica to launch peace plan

The French prime minister, Mr Alain Juppé, began a two-day visit to Corsica yesterday, hoping to reduce separatist violence with a security crackdown allied to an offer of dialogue and economic aid for the island, Reuter reports from Ajaccio.

Mr Juppé, on his first visit to Corsica as prime minister, will outline his plan to turn the island into a "tax-break zone" for five years to revive the faltering local economy. Before leaving Paris, he met cabinet colleagues to discuss the increasing lawlessness and separatist bombings that have defeated successive French governments for 20 years.

The economic package is expected to involve cutting social and fiscal charges on *businesses at a cost of FFr700m* ($135.7m) to FFr800m, increasing aid to agriculture, transport and fishing, promoting tourism, and launching a "cultural charter" to give special status to the teaching of the Corsican language.

The European Union has said it will provide Corsica with FFr1.7bn in aid. Officials said the French package has yet to be approved by Brussels, which *opposed* a *more* ambitious French plan by arguing it would give the island unfair advantages over the Mediterranean islands of other EU *states*.

Two main guerrilla factions have called for calm ahead of Mr Juppé's visit, while the Cuncolta Nationalista, the legal arm of the third group, has said it will suspend activities after a car bomb killed one of its leaders on July 1.

But some unions planned protests to coincide with Mr Juppe's visit, saying the economic concessions were a "present to the bosses".

President Jacques Chirac outlined a three-pronged policy for Corsica on Bastille Day, based on firmness, "positive dialogue" and efforts to kick-start the economy.

The government has signalled a tougher line on the gunmen by rounding up known hardline separatists.

NEWS: ASIA-PACIFIC

HK investment house denies abusing its representative office status

Peregrine in Vietnamese tax probe

By Jeremy Grant in Ho Chi Minh City

Authorities in Ho Chi Minh City yesterday accused the Vietnam-based unit of Peregrine Investments Holdings of illegal trading and tax avoidance, six weeks after raids on its offices sent jitters through the city's foreign investment community.

The move drew a sharp denial from Peregrine, an investment house listed on the Hong Kong stock exchange. The company has been under scrutiny since inspectors arrived without warning at its premises, confiscating documents as part of an company probe that is still under way.

Mr Nguyen Son, spokesman for the city's powerful people's committee – or municipal council – claimed the investigation had revealed that Peregrine's Vietnam operation had abused representative office status by using 13 local companies as business fronts for trading purposes.

Mr Son said the investment house had "violated our law" by using these companies, which he alleged had been created by Peregrine as trading vehicles.

Many foreign investors set up representative offices in Vietnam as a first step before investing money but such offices are banned from doing business.

Peregrine had also imported Japanese-made Honda cars, arranging invoices in such a way as to avoid taxes worth $345,000, Mr Son said.

Peregrine Capital Vietnam has not been charged with any offence.

Mr Son declined to say when the investigation would be completed.

> Raids on Peregrine's offices sent jitters through Hanoi's foreign investment community

A spokesman for Peregrine in Hong Kong, Mr Alan Mercer, denied any wrongdoing and said the company was conducting its activities legally, under an "investment advisory licence" status, granted to it by the Vietnamese authorities.

Mr Mercer said Peregrine's representative office licence status was understood to be dormant.

"As far as we are aware, we are operating legally in Vietnam and have not avoided duly payable taxes. What we're doing is within the terms of our licence," Mr Mercer said.

He added that the question of car tax was a matter of a dispute over import duty, which can be an issue with Vietnamese customs.

Mr Mercer said the people's committee had not informed Peregrine of any of the results of the investigation so far, but the company and its management was co-operating fully in providing information that was requested.

Mr Son declined to say how long Peregrine Capital Vietnam had been under surveillance, saying only that inspectors had begun their investigations after separately making inquiries at other Vietnamese companies.

They had been following the trading activities of other businesses, who were showing signs of improper trading, Mr Son said.

No other foreign companies were being investigated, Mr Son said, adding that there were no plans to launch a campaign of inspections of the over 1,000 foreign representative offices in the city.

Taiwan gives ground over telecom stakes

By Laura Tyson in Taipei

Taiwan will permit foreign companies to take an effective stake of roughly 60 per cent in domestic telecommunications ventures, in a broad "reinterpretation" of legislation in January capping foreign shareholdings at 20 per cent.

The change was agreed under heavy pressure from Washington, which is now holding telecommunications talks with Taiwan authorities in Taipei.

Under the new interpretation, foreign companies wanting a larger stake in common-carrier service ventures can circumvent the 20 per cent ceiling by establishing joint ventures with local companies as long as the foreign partner holds no more than 49 per cent. Such joint ventures are legally considered Taiwanese, not foreign.

Taiwan's national legislature in January passed a reform package lifting a government monopoly on telecommunications services and opening the market to foreign participation.

At that time, foreign telecommunications concerns were disappointed when, in a last-minute reversal, legislators reduced a ceiling on foreign stakes from 33 per cent to 20 per cent. Taiwanese authorities refused to revise the telecommunications law, designed to protect a strategic and lucrative industry, but have compromised by allowing it to be interpreted more broadly.

Separately, the US has also demanded that Taiwan scrap a profit-cap rule, but no agreement on the matter has yet been reached.

Taiwan laws set a cap of 8.5 per cent to 11.5 per cent on profits earned by telecom operators. The talks are scheduled to end tomorrow.

ASIA-PACIFIC NEWS DIGEST

Inflation 'to fall in Australia'

The Reserve Bank of Australia believes the country's annual inflation rate will fall back into the 2-3 per cent target range during the second half of this year, it said yesterday. The last reported figures, for the March quarter, showed a headline rate of 3.7 per cent.

In its latest bulletin, the bank, the country's central monetary authority, said its optimism was based partly on a moderation in the growth of wages, a key area of concern in recent months. "The majority of economic indicators point to modest growth in activity overall, with no general pressure on labour markets or capacity constraints".

■ Australia's federal government is to axe its entire regional development department, which was combined with the transport department after the March 2 election, in its efforts to achieve A$8bn ($6.4bn) spending savings over the next two years. The decision will mean the loss of 230 jobs. Also, Mr John Sharp, transport minister, said his department would save A$150m next year by scrapping the "Better Cities" urban renewal programme, introduced by the previous Labor government. *Nikki Tait, Sydney*

Visa sales increase in Asia

Visa International said yesterday its sales in Asia, outside China, rose 26 per cent to $25bn in the first quarter of calendar 1996, against the same period last year. Sales in China for the year ending March 1996 were $5bn, but Visa gave no percentage rise over the previous year. The company said its annual Asia volume, including China, rose 27 percent to $101.1bn. Its overall share of the international credit card market in Asia was nearly 60 per cent. Visa saw strong growth in the region, with 90.4m Visa-branded credit cards on issue by March, 21 per cent up on a year earlier. *Reuter, Singapore*

China general eases HK fears

The commander of China's future garrison in Hong Kong yesterday sought to ease worries about the presence of People's Liberation Army troops, assuring the territory his forces were "civilised". Major-Gen Liu Zhenwu's comments came during a three-day visit to Hong Kong, the first by a senior PLA officer, in preparation for next year's transfer of sovereignty from Britain to China. "We will tell our compatriots in Hong Kong the nature and objectives of the PLA. We will use action to explain our image as a civilised army," Gen Liu added.

The visit by Gen Liu, following a visit to southern China by leaders of the British forces stationed in Hong Kong, appeared to create a favourable impression. An editorial in Ming Pao, the independent daily newspaper, said Gen Liu's visit marked the start of a new era. *John Ridding, Hong Kong*

Tokyo store sales rise

Sales at department stores in the Tokyo area rose for the sixth straight month in June due in part to favourable weather, the Japan department stores association said. Sales at the 29 stores operated by 14 member-companies grew 1.4 per cent from a year earlier to Y189.4bn ($1.8bn). The June growth was bigger than the 0.5 per cent increase recorded in May, it said.

The association attributed the growth in the reporting month to favourable weather conditions. There were also five weekends in June, one more than the same month last year, which helped to boost sales. Corporate demand remained stagnant, and demand related to the summer gift season was also sluggish, the association added. *Kyodo, Tokyo*

Kyat tumbles in troubled Burma

Ted Bardacke in Mandalay examines the reasons for the currency's sharp fall

The maroon-robed monk sidles up to a foreign visitor as darkness falls in the once-heavenly city of Mandalay in the Burmese heartland. He thrusts forward a few worn banknotes and, lighted cigarette still in his mouth, whispers: "Change money, change money."

Nervousness over political instability and the psychological impact of the withdrawal of western companies from the country may be part of the reason why the monk has to provide a lot more Burmese kyat for the tourist dollar than he did just a few months ago.

Last Friday the kyat suffered its second sizeable depreciation in as many months. Although the official rate remains six kyat for one US dollar, the market rate fell from a two-year plateau of 125 to the US dollar to about 145 in late May and then again to yesterday's 165.

This fall has followed piecemeal liberalisation of the foreign exchange market, which earlier this year eliminated the two-tiered system for everything except book-keeping and certain transactions with the government. Licences have been issued to a host of money changers, who now do a brisk and open trade in US dollars and Thai baht.

That the official rate is maintained at all is a recognition by Burmese authorities that they do not have the hard currency to back up a fully liberalised exchange regime. Despite a slight increase in international reserves last year, in fiscal 1995-96 Burma's current account deficit more than doubled to over $700m, according to recently released figures.

Burmese financial authorities say they will scrap the two-tier system completely once concessional funds from the international financial institutions, like the World Bank and the International Monetary Fund, are made available.

But with such monies still held hostage to political fortune and government purchases unaffected by market movements, authorities are letting the market rate find its own level.

Worries about political stability in a country whose leadership has been widely condemned by the western world is the most common explanation among foreign exchange dealers for the rapid decline of the kyat.

There has been increasing pressure for world-wide sanctions against the military backed junta which in May detained over 200 parliamentarians. Although most have been released the west has grown increasingly irritated at the failure of the regime to reach an accommodation with Ms Aung San Suu Kyi, whose National League for Democracy won the 1990 elections.

In the past few months there has been a growing western consumer boycott of companies which invest in Burma and this has led to Carlsberg and Heineken withdrawing from brewery projects there.

Foreign exchange dealers say that when the government removed a 10 per cent tax on foreign currency deposits for Burmese citizens last month, this ended the penalty for holding US dollars in local banks and led many people to immediately convert their kyat savings into US dollars.

But some businessmen and government officials are wary of this theory because it relies on the questionable assumption that the use of the banking system is widespread. Instead, they argue, the signing early this month of a $300m contract with a group of local investors to improve the main Rangoon-Mandalay highway is to blame.

One well-placed government employee says an immediate signing fee of several million dollars was called for and local investors had to scramble quickly to buy up most of the outstanding dollars on the market.

Trading companies have pinpointed a different problem for the kyat: congestion at Rangoon port, where one of its two main cranes is broken. This has caused a fall in export revenue and thus lowered the supply of dollars on the market. Normally, this would be offset by a corresponding decline in imports, but on Monday an auction of unclaimed goods, including 62 new cars, was held, thus creating a sudden demand for dollars.

No one can explain with absolute confidence why the kyat has fallen so fast in this shallow market, but for the monk one thing is clear: "Lots of things to buy but this no good," he says pointing to his handful of kyat.

Aung San Suu Kyi: hard times

NEWS: WORLD TRADE

Pakistan to crack down on child labour

By Farhan Bokhari in Islamabad

Pakistan has ordered local authorities to raid factories employing children in its latest effort to deflect mounting international criticism and threats of trade sanctions for its labour practices.

Prime Minister Benazir Bhutto has also asked officials and the human rights ministry to look into the issue of child labour and take remedial steps.

Pakistan was heavily criticised in April last year after the death of a child rights activist, Iqbal Masih, who was shot dead.

Suggestions that carpet makers had plotted to kill him were subsequently discredited and an investigation by the Human Rights Commission of Pakistan (HRCP) concluded that his murder was unrelated to his campaigning activities.

But his death and concerns over bonded or slave labour prompted growing demands by western governments for tighter labour regulations. One Pakistani official said: "Never before have we had so many people demanding certificates that exports were not manufactured by children working as labourers."

The incident prompted fears of repercussions affecting carpets and other exports suspected of being produced by bonded or child labour.

Labour Minister Ghulam Akbar Lasi has asked the commerce ministry to launch, within a month, a special mark scheme for carpets and footballs to certify that no child labour was used. A similar scheme will be launched for footballs following a recent outcry. This week US congressman Joseph Kennedy said a quarter of the estimated 35m footballs made each year in Pakistan were stitched together by children working eight to 12 hours a day and earning as little as six cents an hour.

Mr Mian Habibullah, chairman of Pakistan's export promotion bureau, said recently: "Having labour laws is not enough. We have to enforce these laws to show the world that we are not encouraging child labour in our country."

Pakistan's provincial labour departments raided 7,003 businesses between January 1995 to March 1996, the labour ministry says.

The authorities prosecuted 2,538 employers of whom 395 were convicted and fined under child labour laws.

Mr Lasi said he had asked the authorities to ensure that violators were sent to prison and not just fined. Punishment can range from a fine of Rs50,000 ($1,428) to five years in prison, he said.

The HRCP claims 10m children out of a population of 130m are employed in brick kilns, farms, carpet manufacturing, workshops and restaurants, working the same hours as adults, but getting paid much less.

The government does not accept the unofficial estimates of the child workforce and has ordered its own study jointly with the International Labour Organisation.

In 1990, Pakistan ratified the UN Convention on the Rights of the Child that prohibits child labour, but legal experts say legislation needs to be enacted to implement it.

Foreign telecoms operators eye Malaysia

Eight players will compete where the government said three would be ample. **James Kynge** reports

Malaysia's telecoms operators are growing accustomed to the unexpected. It was a surprise when, early this year, the government said the telecommunications market was overcrowded and insisted that several operators should merge.

When it reversed that policy this month it was another bombshell. Suddenly eight players are again set to compete in an industry where the government had maintained that three would be ample.

Calm is now returning after a week in which investors and analysts have reviewed their forecasts. Most observers regard the policy reversal as a blow to Telekom Malaysia, the country's largest listed company. The state-run former monopoly will have to contend with a constellation of smaller niche players each attacking lucrative segments of the market. To make matters worse, several among Telekom's competitors have recently forged alliances with foreign partners able to supply expertise and customers overseas.

In truth, nobody expects Telekom will lose its dominant position or fail to record healthy rises in revenue. But the company is likely, however, to suffer significant narrowing in operating margins and a fall in market share in its fixed-line business. It may also have to fight a pricing battle in the profitable international direct dial (IDD) market.

"Telekom is up against internationally experienced players who are very aware of how to access corporate business, particularly from multinationals," said Mr Neil Juggins, Asia telecoms analyst with Paribas Capital Markets in Singapore.

Latest foreign company to enter the fray was Swiss Telecom, Switzerland's national operator. Last Thursday it bought a 30 per cent stake in Mutiara Telekom for M$710m ($255m). The tie-up represents a direct challenge to Telekom in the international telephony market because with Swiss Telecom's help Mutiara stands a good chance of finding overseas customers to put its new satellite earth station to use.

Through its alliance with the international carrier Unisource, Swiss Telecom hopes to strike agreements with overseas telecoms companies to use Mutiara's satellite facilities for calls not only to Malaysia but also to other countries in the region. Further competition for the international direct dial (IDD) market is expected from Binariang, an unlisted company 20 per cent owned by "Baby Bell" US West.

The owner of Malaysia's only communications satellite, Binariang plans to start beaming down 20 channels of television later this year. But analysts also expect that some satellite capacity will be reserved for telephony.

Perhaps the most formidable opponent for Telecom is Technology Resources Industries, in which Deutsche Telekom took a 21 per cent stake in June for an estimated US$570m. The German company plans to help TRI develop its international business by forging relationships in much the same way as Swiss Telecom hopes to do for Mutiara. Deutsche Telekom is the biggest telecoms company in Europe and analysts said it may be able to field considerable overseas business.

The IDD business is the most profitable segment of the market and typically yields operating margins of above 40 per cent. With annual growth predicted at above 20 per cent for the next five years, there is a good chance that all operators will find enough revenue to sustain themselves. But it seems likely that Telekom Malaysia, which derives 25 per cent of its revenues from IDD calls, will lose market share.

In the domestic fixed-line business the story is similar. Time Telecom, one of the companies which the government had said it wanted to see merged, may develop into a dangerous competitor for Telekom. Part of the powerful and politically well-connected Renong Group, Time has spent M$2.2bn over the past two years laying 4,000km of fibre-optic cable. Although it has only 5,000 subscribers so far, it has begun successfully targeting large corporate customers.

"Competitors of Telekom may take 20 per cent of the IDD and domestic trunk call market by the year 2000," said Mr Hoo Han Kiyong, telecoms analyst at J.M. Sassoon and Co in Kuala Lumpur. Their share now is less than 5 per cent.

Just days after the government announced the reversal of its policy, Time outbid Telekom to acquire Sapura Digital, a local cellular operator. The alliance will allow Time to use Sapura's radio equipment to reach clients in areas where laying cable would not be economic. It also gives Time a licence to operate in the fast expanding cellular market.

About 1m among Malaysia's 20m people are mobile phone subscribers but analysts predict 5m users by the year 2005. The business is currently dominated by Celcom, a subsidiary of TRI, which has built up a 70 per cent market share.

Telekom has launched an aggressive drive to capture mobile phone customers and this is expected to win considerable success. But competition will be tough – Mutiara, Celcom and Time are all about to begin new sales promotions.

Even while it fights competition on all sides, Telekom has to fulfil its obligation as the provider of a universal service to all parts of Malaysia, including remote and unprofitable areas. Under its own plan, the company hopes to increase the number of lines it operates to 5.3m by the end of 1998, from a 3.5m now. This and other planned expansions are expected to require capital expenditure of between M$3bn and M$3.5bn annually over the next three years.

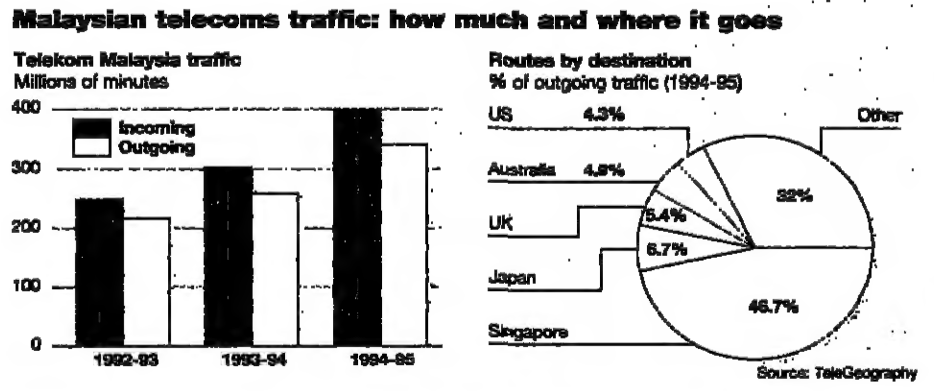
Analysts said the company, which posted a 15 per cent rise in pre-tax profits to M$1.93bn in 1995, may decide to raise its capital expenditure now that government policy on consolidation has been reversed.

A spokeswoman said the company could not comment on its future strategy. But if Telekom Malaysia does decide to raise spending, it is likely to do so before January 1 1999 when it must allow equal access for all competitors to its network.

But although Malaysia is keen to see lower telecoms tariffs as a means to attract foreign investors, the government will not allow one of its most profitable companies to be run into the ground in the process. Two surprises last week went in Telecom's favour – the company was awarded the country's second Internet provider's licence and given a concession to lay the "backbone" infrastructure for a grandiose scheme to create a 600 sq km "Multimedia Super Corridor" for software and information processing companies.

The value of both awards is somewhat difficult to judge but if Malaysia is successful in remaking itself as an information technology hub for south-east Asia, then Telekom will be best positioned to reap the rewards.

Malaysian telecoms traffic: how much and where it goes



Source: TeleGeography

WORLD TRADE NEWS DIGEST

China awards power contracts

China yesterday awarded two nuclear power plant contracts to foreign companies. Framatome, the French state-controlled nuclear reactor builder, signed an agreement to produce parts for 1,000MW plants and the Korea Heavy Industries and Construction company won a $150m contract from China National Nuclear Corporation to supply nuclear power plant facilities. Framatome and the Eastern China Electric Group in Chengdu, capital of south-western Sichuan province, will co-produce heavy machine parts, such as steam engines, for Guangdong's No.2 nuclear power plant.

It is the first time the Chinese enterprise has participated in manufacturing heavy machine parts for nuclear power plants with a capacity of 1,000MW. The two sides also concluded a long-term co-operation contract to develop jointly nuclear power plants in China. *Foreign Staff*

US resumes insurance talks

Japanese and US negotiators yesterday resumed talks on the insurance sector in an effort to settle their bilateral dispute by a July 31 deadline. At the centre of the dispute is Japanese life insurers' entry via subsidiaries into the so-called third sector market for accident and illness insurance, where foreign insurers are strong. The US says Japanese subsidiaries should not be allowed to enter the sector until the rest of the insurance market is sufficiently deregulated to allow fair competition. Insurance is one of four areas of bilateral dispute between Tokyo and Washington, the others being semiconductors, aviation and photographic film. *Reuter, Tokyo*

BMW's India venture approved

India yesterday approved a joint venture between BMW of Germany and Hero of India to build cars. BMW and the Hero group, controlled by the Munjal family, signed a memorandum of understanding in March before sending the proposal to the government for approval. General elections and a change of government earlier this year delayed the approval. BMW will control 51 per cent of the venture, which will be called BMW India. One of Hero group, Hero Motors, is India's largest manufacturer of motorcycles and enjoys a technology tie-up with BMW to make 650cc machines.

The initial capacity of the plant will be 10,000 units per year. The plant will be located at Noida, near New Delhi, where Hero makes its motorcycles. The company is expected to make the BMW 5-series semi-luxury cars. *Reuter, New Delhi*

■ British Aerospace Australia, part of the British defence group, has won a three-year contract to operate and maintain Australia's national broadcasting network in South Australia and the Northern Territory.

The agreement, worth A$19m (US$15.2m), is a sub-contract arrangement with Television New Zealand, the state-owned broadcaster. TVNZ, via its broadcast communications unit, won a A$80m contract to run the Australian network in South Australia, Queensland and the Northern Territory in April. The contract covers all facilities used to transmit programmes put out by the Australian Broadcasting Corporation and SBS – Australia's public broadcasting networks – on radio and TV, and international high frequency services. *Nikki Tait, Sydney*

■ Alcatel Alsthom of France won a FFr200m ($38.75m) contract with the Brazilian company Nova Dutra to supply an electronic highway traffic control system. The systems will be installed on behalf of Nova Dutra, a concessionaire of the highway between Rio de Janeiro and São Paulo. Installation will be completed by next year. *Stephen Fidler, London*

هكذا من الأصل

flation 'to fall Australia'

sales increase in Asia

general eases HK fears

ro store sales rise

hina awards wer contract

's India venture approv

EU unites over US measures against Cuba

By Guy de Jonquières, Stephen Fidler and Nancy Dunne

European Union officials said yesterday they would continue to work on responses to US anti-Cuban legislation, in spite of President Bill Clinton's decision to delay court actions against foreigners dealing in Cuban properties confiscated from Americans.

They said Mr Clinton's move had not removed basic objections to the Helms-Burton legislation or weakened their opposition to US attempts to impose its law on the rest of the world.

Sir Leon Brittan, the EU trade commissioner, said the president's decision to postpone for six months the filing of lawsuits against foreigners "trafficking" in confiscated Cuban assets was "a very limited response" to the concerns of US trade partners.

He said he was particularly concerned about two aspects of the law. Mr Clinton's decision had had no effect on Title IV, under which directors, shareholders and executives of companies investing in confiscated Cuban assets are barred from the US.

Furthermore, although the right to sue has been postponed, liabilities can still be incurred by foreign companies dealing with Cuba. The president can reinstate the right to sue at any time and after November 1, suits would then be filed immediately.

According to Mr John Coogan, a Washington lawyer, this ensures "that the powerful disincentives to investment in Cuba, and to other business in Cuba, will continue".

One unexpected effect of the legislation has been to unify the often quarrelsome members of the EU. Seasoned observers say they have rarely witnessed greater solidarity, or stronger demands for immediate action among EU foreign ministers than was displayed at this week's council meeting in Brussels, just before Mr Clinton announced his decision.

At an operational level, the 15 member states and the Commission are also co-ordinating activities closely through a special task force composed of representatives from their embassies in Washington. How far this unity will translate into agreement on the next phase of the EU campaign should become clearer today, when member states' ambassadors to the EU meet in Brussels.

Though Mr Clinton's action has lowered the political temperature, perhaps until after the US presidential elections in November, several governments are expected to argue that the EU needs to demonstrate clearly that it is committed to keeping up the pressure on Washington.

Their resolve is likely to be stiffened by the US Senate's approval on Tuesday of draft legislation providing for sanctions against investors in Iran and Libya which are even tougher than those already passed by the House of Representatives.

The planned legislation could have a much bigger economic impact on European companies than the Helms-Burton Act. The EU has already warned congressional leaders that it will react strongly if the bills become law.

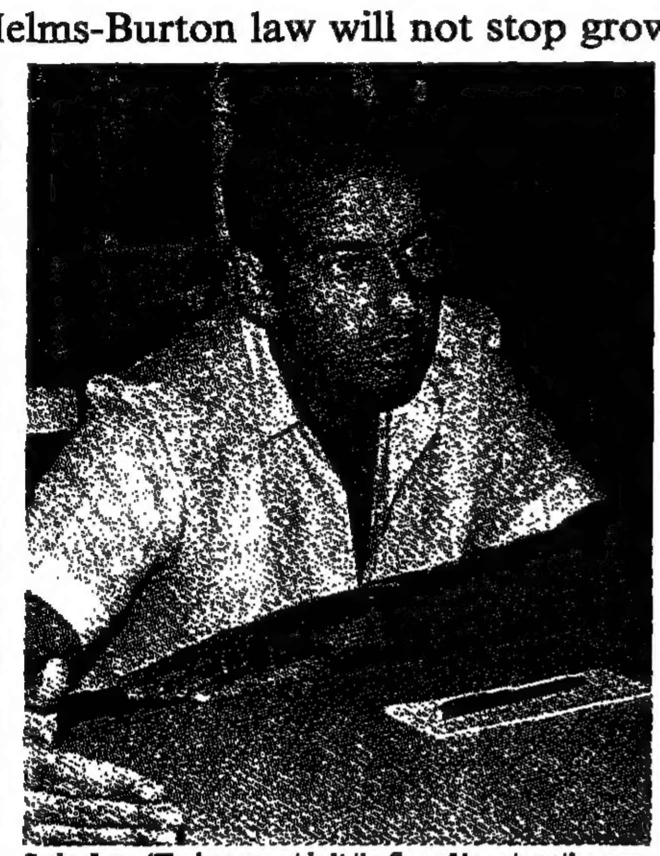
The Senate version of the Iran-*Libya bill contains two important* changes in the section dealing with Libya, at the insistence of Senator Edward Kennedy. One would require the president to impose sanctions on companies rather allow him discretion over sanctions. It is not clear yet how the differences in the two versions will be resolved.

EU ministers have instructed Sir Leon to draw up a list of retaliatory measures against Helms-Burton. However, it is unclear which of them are likely to be put into effect, or when.

Some EU policymakers argue that it should quickly introduce reprisals, such as visa restrictions on US corporate executives, to signal its displeasure with US policy. Another option would be *to hold retaliation in reserve* until February, when the White House will decide whether to renew its moratorium on Helms-Burton lawsuits. EU members are also discussing a parallel initiative – as proposed by the US – that would bring closer together the US and European positions over Cuba.

Cuban economy 'will survive US sanctions'

Washington's Helms-Burton law will not stop growth, Vice President Carlos Lage tells **Pascal Fletcher**



Carlos Lage: 'The law cannot halt the flow of investment' Armis Agil

However tightly President Bill Clinton turns the screw of trade sanctions against Cuba, the island's economy will not only survive but continue to recover and grow, said Cuban vice president Carlos Lage.

However, be acknowledged that the Helms-Burton law, introduced by Washington in March, complicated the prospects for economic recovery by slowing the pace of new foreign investment and increasing the financial cost to Cuba of external financing.

Mr Lage said in an interview this week that an improved 1995/96 sugar harvest and unexpectedly good results in tourism and nickel production had helped Cuba to achieve 9.6 per cent growth in gross domestic product in the first six months of this year compared with the same period of 1995.

"Even if the [Helms-Burton] law is applied with all possible force, I believe the nation has the capacity to maintain its recovery," said Mr Lage, who is seen as Cuba's top economic strategist.

He believed the economy would fulfil, and maybe surpass, a projected GDP growth target for the whole year of 5 per cent. This would mean economic recovery gathering pace, following announced growth of 2.5 per cent and 0.7 per cent in 1995 and 1994.

The seasonal concentration of the sugar harvest in the first six months of the year weighed heavily in the first-half 1996 growth figure.

But GDP still remained depressed from 1989 levels, showing the economy had not yet left behind the severe recession triggered by the collapse of trade and aid ties with the former Soviet bloc.

Mr Lage said that, regardless of how the Helms-Burton law was applied, its biggest evil was the way it sought to intimidate foreign investors in Cuba by threatening US sanctions against those judged to be "trafficking" in assets *confiscated after the 1959 revolution.*

Mr Clinton on Tuesday sought to placate US trading partners by imposing a moratorium of at least six months on the filing of suits under the law, but the threat of eventual action remained.

Mr Lage ruled out direct compensation settlements with individual US claimants to nationalised properties, saying Havana would prefer an overall government-to-government solution with Washington.

Cuba was pleased with the intense international condemnation that had greeted the US legislation, led by the EU, Mexico and Canada. Mr Lage said foreign companies operating on the island had been "practically unanimous" in their determination to stay.

"We believe that the law cannot halt the flow of investment... It might affect, limit or delay it, but not halt it," he said. He cited the fact that 25 foreign investment projects had been signed since the introduction of the US legislation, bringing the accumulated total in Cuba to around 240.

Asked about reports that some companies had withdrawn, Mr Lage replied: "There have been no withdrawals among those who are investing in Cuba."

On the reported pull-out by Mexican cement giant Cemex, *he said another institution, not* Cemex, was the real partner in a cement-producing venture in Cuba. "The joint company is continuing to operate and the investment in cement is continuing," he said.

But some financing flows had been interrupted as some foreign banks and companies moved to protect themselves by changing the way they operated in Cuba. This was the case of the ING Group of the Netherlands, which announced earlier this month that it would not continue a financing contract for two Cuban sugar-growing provinces. Mr Lage said that "by mutual agreement", ING had discontinued this contract but was maintaining its financing operations in Cuba.

Protective restructuring moves prompted by the Helms-Burton law could effect the timing and final cost of foreign credits, which Cuba was already forced to obtain under onerous short-term, high-interest conditions because of the US embargo, Mr Lage said.

"Every measure that increases the US hostility against Cuba carries with it a greater cost for our nation. It *raises the 'Cuba risk' factor* and interest rates and makes negotiations more difficult," he added. This financing squeeze was a big difficulty for Cuba's recovery efforts.

Discussing the economy, Mr Lage said the 1995/96 sugar harvest produced 4,445,000 tonnes. Although this was 55,000 tonnes short of the official target, it still bettered by more than 1.1m tonnes last year's disastrously low crop of 3.3m tonnes.

Tourism, the fastest growing new sector, had also performed *strongly in the first six months* of this year. Tourist arrivals reached 494,000, an increase of more than 46 per cent over the same period last year. Over the whole year, the tourist sector was expected to better its projected annual growth target of 25 per cent.

Nickel production up to June had increased by more than 30 per cent to 27,400 tonnes, indicating the island was on track this year to beat the 1989 production record of 46,592 tonnes. Industry, excluding sugar, grew more than 10 per cent.

Peru to seek Paris Club debt accord

By Sally Bowen in Lima

Mr Jorge Camet, Peruvian economy and finance minister, will today present his country's case for restructuring its $9.25bn debt with the Paris Club group of bilateral sovereign creditors.

The Paris Club accounts for around 28 per cent of Peru's total debt stock, which was revised sharply upwards recently to $32.45bn in advance of a "Brady" deal with commercial bank creditors. Of Peru's 16 bilateral creditors, four account for more than two-thirds of the *total: France with $1.82bn,* Japan $1.76bn, the US $1.49bn and Italy $1.17bn.

Since its last agreement, Peru has paid the Paris Club $329m, $354m and $403m in 1993, 1994 and 1995 respectively. Peru's basic objective in Paris will be to ensure that servicing for the next three years is pegged around current levels.

This aim is almost certain to be met. It corresponds to the payments schedule already sanctioned in Peru's letter of intent with the International Monetary Fund, which in essence contains the country's official economic programme for 1996-98. Approved by the IMF board on July 1, the letter guarantees the Fund's backing for Peru in Paris.

However, Peru has a more ambitious proposal – a definitive restructuring of obligations as from 1999. This would involve all pre-1983 debt with the Paris Club, estimated at *around $6.5bn or 70 per cent of* the total. Peru would seek to reschedule its debt over 25 years under conditions similar to those recently granted to Russia.

Current annual payments of around $400m already represent a substantial concession by official creditors. Without an extension of the relief granted in 1993 – when Peru returned to the international financial fold after a decade in the wilderness – annual servicing of the Paris Club debt alone would top $1bn.

That, however, would be equivalent to around 20 per cent of export earnings and similar to total current debt service payments.

Despite high international reserves (they recently topped $8bn, a record), and a steadily growing economy, Peru's real capacity to pay its creditors is still limited. From next year, it will have to include an additional $300m a year for the soon-to-be-signed Brady restructuring plan.

Mr Camet believes servicing levels contemplated in the letter of intent are realistic, however. Peru expects another $6bn in income from privatisations by 1998, with associated investment commitments around the same again.

Party lines up to advise Dole

By Jurek Martin in Washington

Mr Bob Dole is being bombarded with advice on how to rescue his faltering presidential campaign as each day seemingly brings worse news.

The advice ranges from demands by conservatives that he embrace an ambitious tax-cut programme as the centrepiece of his message, to the more prosaic counsel that he stop engaging in the off-the-cuff repartee with the media that has produced so much recent controversy.

The latest polling jolt came from the Harris organisation. It found President Bill Clinton up by 53-31 per cent among registered voters, a 3 point improvement in a month. Mr Clinton was ahead by 25 points among those most likely to vote. The poll is the third national survey this week to put Mr Clinton up by at least 20 points, a significantly larger edge than recorded in June. All three put support for Mr Ross Perot of the Reform party in the mid-teens, meaning that Mr Dole is competing with the 1992 independent candidate for the anti-Clinton vote.

Mr Dole appeared over the last 24 hours to be heeding the advice of campaign aides to cut down on his exchanges with the media. A "unity" lunch on Tuesday with *all* the defeated Republican primary challengers except Mr Pat Buchanan found the candidate ducking *all questions.*

It was left to Senator Dick Lugar of Indiana to comment afterwards that Mr Dole "may not have so many incidental moments coming and going with reporters".

But his campaign's strategic message, particularly on economic policy, remains in its formative stages, especially on the tax-cut issue. Mr Dole's reputation is as a "deficit hawk", more interested in moving towards a balanced budget than engaging in fiscal experimentation in the pursuit of growth.

But restless supply-side conservatives, led by Mr Jack Kemp, former New York congressman and housing secretary, are seeking to force Mr Dole's hand. Mr Kemp wants to convene an "economic summit" *of Republicans on Capitol Hill,* tentatively set for July 23, in which advocates of steep tax cuts would be given a full hearing.

He is seeking the support of the Republican congressional leadership – Senator Trent Lott, the majority leader, and Mr Newt Gingrich, House Speaker. While not wishing to embarrass Mr Dole in public, both may be tempted to conclude that preservation of their majorities in Congress may depend on the adoption of radical policies very different from those entertained by their party's presidential candidate.

AMERICAN NEWS DIGEST

US housing starts increase

Construction starts on new homes rose in June, the Commerce Department said yesterday, adding to evidence of US economic vibrancy despite fears of rising interest rates. Total starts increased 1.3 per cent to a seasonally adjusted annual rate of 1.48m units in the month, after retreating a revised 3.3 per cent in May.

The housing industry had enjoyed a surprisingly healthy period until May, when the decline in starts appeared to demonstrate that rising interest rates were finally beginning *to take their toll. The department said that construction starts* on single-family homes increased 7.4 per cent to 1.23m last month after falling 5.6 per cent in May. Housing starts rose in the west and south and dropped in the north-east and Midwest. *Reuter, Washington*

More American adults smoke

Latest figures on cigarette smoking in the US suggest that efforts to stamp out the habit are failing. In spite of widespread anti-smoking sentiment and increasingly tough restrictions on smoking in public places, the proportion of adults who smoke rose to 25.5 per cent in 1994, up from 25.0 *per cent the year before.*

US health officials have set a target of cutting the proportion of smokers to 15 per cent of the adult population by the end of the decade, but it is becoming clear they will fall far short of that goal. After declining rapidly in the previous 25 years, the proportion of adults who smoke bottomed out at 25 per cent in 1990 and has remained at about the same level since. The Centers for Disease Control and Prevention, which reports the statistics, said nicotine addiction was the main reason why people were not giving up. It also blamed the fall in cigarette prices that followed a price war in April 1993. *Richard Tomkins, New York*

Jamaica takes over bank

The Jamaican government has taken over the island's fifth largest commercial bank, saying that it was poorly managed and the Central Bank could no longer support it. The Century National Bank, which has been having liquidity problems for the past year, had received advances from the Central Bank totalling J$4.32bn (US$125m) up to last week, said Mr Omar Davies, the finance minister. This level of exposure of the *Central Bank could not continue, he said.*

The government has also taken over two associated companies – Century National Building Society and Century National Merchant Bank – and the bank's 49 per cent stake in *a resort hotel. The deposits of Century National's 50,000 clients* have been frozen for 60 days. Mr Davies dismissed opposition charges that the takeover threatened the banking system. "It is the considered view that the temporary closure of Century National Bank poses no *systemic risk*," the finance minister said. *Canute James, Kingston*

Move to protect key networks

The Clinton administration has urged US industry to join a sweeping drive to protect computer networks and other modern lifelines from attack by terrorists and others. Government and industry must mount the equivalent of the "Manhattan Project" that developed the first atom bomb during the second world war to protect critical infrastructure, Mr Jamie Gorelick, deputy attorney general, told a Senate panel on Tuesday.

President Bill Clinton set the stage for the move on Monday with an executive order setting up a panel to recommend measures to safeguard telecommunications, power systems, water supply, and gas and oil storage and transport. The administration began to focus on the issue after the April 19 1995 bombing that killed 168 people in an Oklahoma City federal office building. *Reuter, Washington*

Second minister quits in Argentina

By Matthew Doman in Buenos Aires

Argentina's opposition has rounded on President Carlos Menem after the second ministerial resignation in a week, claiming the departures were a sign of instability and corruption in the administration.

Mr Oscar Camilión, defence minister, who has been under pressure for allegedly permitting illegal arms sales to Ecuador and Croatia, handed his resignation to Mr Menem just hours before the president left for a four-day visit to the US. Mr Menem said he would consider the resignation while away and would not name a replacement until his return.

The departure of the defence minister follows last week's resignation of Mr Rodolfo Barra as justice minister after a magazine revealed he had belonged to a neo-Nazi group in his youth.

Mr Barra admitted his regret at having joined "anti-semitic" organisations.

However, analysts played down the resignations. Mr Rosendo Fraga, a political analyst, said the departures of both men were necessary and gave Mr Menem "the opportunity to improve the image of his government".

Mr Camilión has for over a year denied knowledge of, or involvement in, the sale of rifles and 75 tonnes of ammunition to Ecuador in February 1995. The sale of Argentine arms took place at the height of Ecuador's border conflict with Peru, a traditional ally of Argentine in regional and international affairs.

It was later revealed that Argentina's state-run arms manufacturer, Fabricaciones Militares, had made sales to Croatia despite a UN-imposed arms embargo, and that the arms could have been used against Argentina's own peace-keeping troops in the former Yugoslavia.

Mr Camilión gave up his fight to retain his job after a federal judge ruled there was a sufficient evidence to question the defence minister over a possible cover-up of the illegal arms sales.

The city the US recovery left behind

Surrounded by a national economy marked by rapid growth, New York faces its worst financial difficulties since its near-bankruptcy in the 1970s, writes **Richard Tomkins**

In theory, New York City should be booming. The US economy has experienced a prolonged period of growth, Wall Street, in spite of recent *setbacks, has been enjoying* one of its longest-ever bull markets, and the weak dollar has brought an influx of high-spending tourists.

Instead, New York is facing its worst financial difficulties since its near-bankruptcy in the 1970s. Decaying infrastructure, run-down schools and empty office blocks are among the physical signs of weakness in the local economy, but the most telling symptom is the city's struggle to balance its budget. Employment growth is so weak, and the real estate market so moribund, that taxes on income and property cannot keep up with the rising cost of providing public services.

Mayor Rudolph Giuliani, New York's first Republican mayor in a generation, came to office in January 1994 pledging *to put the city's finances in* order. Since then, he has slashed more than 20,000 jobs from the municipal workforce, cut welfare rolls by more than 120,000, and hacked away at public services.

Yet in spite of the cuts, New York City's spending is forecast to grow from $32.7bn in the current year to $35.8bn by the year 2000. The city is required by law to balance its books: but with revenues almost static, it is looking at a deficit that, even on the most optimistic assumptions, will have reached nearly $3bn by the end of the decade.

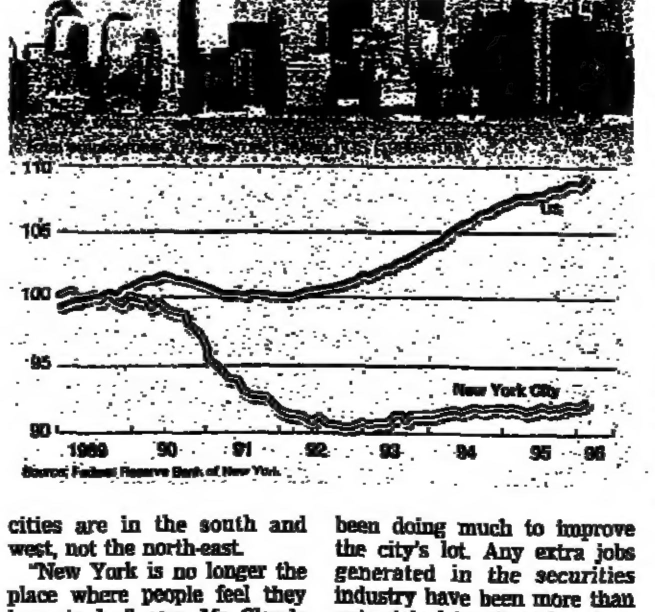
Reflecting the city's financial woes, Standard & Poor's, the US credit rating agency, last year lowered New York's debt rating to Triple-B-Plus, citing "chronic budgetary stress from long-term weak economic performance". Of other large US cities, only Detroit, Philadelphia and Washington DC score lower.

The trouble with New York is that recovery has largely passed the city by. While most *of the rest of the US has long* since bounced back from the last recession and shown strong employment growth, New York has clawed back less than a third of the 342,000 private sector jobs it lost between 1989 and 1992.

Many of the jobs that went were in manufacturing, and will probably never come back. But New York's bigger problem is that it is failing to *attract enough jobs in new,* growth sectors to replace those that have gone.

High taxes and high real estate costs are *two strong* disincentives to new industries. So is the quality of life, or lack of it: a recent poll by the Regional Plan Association, a New York-based advisory group, found that 49 per cent of New York's residents would move out of the city if they could, citing poor schools, high housing costs and street crime, among other things.

This might matter less if there were nowhere else to go. But in a country as big and diverse as the US, there are many other business locations to choose from, often with much lower costs and higher living standards than in New York. Today's fast-growing cities are in the south and west, not the north-east.



Source: Federal Reserve Bank of New York

"New York is no longer the place where people feel they have to be," says Mr Claude Shostal, the Regional Planning Association's president. "They almost have to justify what the hell they are still doing here."

Traditionally, one of New York's biggest strengths has been its standing as the financial capital of the US. But in spite of near-record profits last year, not even Wall Street has been doing much to improve the city's lot. Any extra jobs generated in *the securities* industry have been more than outweighed by those lost in a continuing wave of bank mergers and through the relocation of back-office functions to states with lower costs.

Amid the gloom, it is possible to find some bright spots. Crime rates have plummeted over the past two years, and Mayor Giuliani has been waging a "quality of life" campaign against petty offences.

Retailing activity, meanwhile, has been lifted by a relaxation of planning controls which previously kept big stores out of the city; the seedy and decrepit Times Square entertainment area is seeing a Disney-led revival; and one *growth point has* been the emergence of small, entrepreneurial businesses developing Internet sites, multi-media software, on-line entertainment and other computer-related offerings.

However, Mr David Hensley, an economist at Salomon Brothers, says these elements will struggle to provide enough employment to compensate for the declines in other areas. "It's very difficult to look at the city's various sectors and come up with one that is poised to become a major new driver of growth," he says.

Mr Mitchell Moss, director of the Taub Urban Research Center at New York City University, believes New York's future lies in knowledge-based industries. "New York is a magnet for people with brain power," he says. "That brain power isn't just in science or biomedical research: it's in fashion, or finance, or developing new ways of marketing, *and I think* that's what makes New York strong."

But whatever the long-term outlook, New York faces diffi*cult times in the near term* as it struggles to live within its means. Even without a recession or a Wall Street crash, Mayor Giuliani will have to take a much bigger axe to public services than the one he has so far wielded. The fact that he has not done so already owes more to the fact that he faces re-election next year than to the prospect of any upturn in the economy.

Jackson targets Mitsubishi

Mr Jesse Jackson, US civil rights leader, vowed yesterday to step up protests against Mitsubishi Motors over behaviour towards minorities and women workers in the US after an "unproductive" meeting with the company, Reuter reports from Tokyo.

Mr Jackson said Mitsubishi was just the first target of a campaign against car companies in the US in the coming year, with another Japanese maker, Honda, next on the list. "We are going to go down car line by car line and challenge the automobile industry," he told a news conference after a 90-minute meeting with Mitsubishi executives.

He denounced Mitsubishi and other carmakers, both domestic and foreign, for not hiring enough African-Americans, Hispanics and women, not putting enough minorities in executive positions and not giving enough dealerships to minorities.

Mr Jackson's Rainbow Coalition – a political and civil rights organisation – and other minority groups have boycotted Mitsubishi for several months.

Mr Taizo Yokoyama, Mitsubishi managing director, said the company wanted to keep its "lines of communication open" to the civil rights leader.

The US Equal Employment Opportunity Commission has charged Mitsubish with creating a "hostile and abusive" work environment at its US subsidiary in Normal, Illinois. It alleges women were groped, grabbed and touched and forced out of their jobs if they complained.

FINANCIAL TIMES
COMPANIES & MARKETS
©THE FINANCIAL TIMES LIMITED 1996
Thursday July 18 1996

IN BRIEF

Stork buys Fokker unit for Fl 302m

The dismantling of Fokker, the failed Dutch aircraft maker, began in earnest as receivers sold Fokker Aviation, its profitable components and maintenance division, to Stork, a domestic industrial group, for Fl 302.5m ($180.5m). Page 16

Computer Associates has record quarter
Computer Associates reported record results for its first fiscal quarter, buoyed by strong demand for its "client-server" software products used on networks of computers. Page 14

AMR and TWA show strong upturn
AMR, parent of American Airlines, and Trans World Airlines opened the results season for US airlines with sharp upturns in second-quarter profits. AMR had net income of $293m, up 65 per cent. TWA reported net profits of $20.4m after preferred stock dividends, up from $1.2m a year earlier. Page 14

National Mutual brings forward listing
National Mutual, Australia's second largest life assurance group, announced it would list on the Australian and New Zealand stock markets in October – a year ahead of its declared deadline. It is likely to be valued at more than A$2bn (US$1.58bn). Page 15

SGS-Thomson chip arm rises 53% midway
SGS-Thomson Microelectronics, the Franco-Italian semiconductor manufacturer, reported "record market share gains" as it unveiled a 53 per cent advance in first-half net earnings. Page 16; Lex, Page 12

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Karstadt	554	+	10
VEW	440	+	12
Wella	805	+	13
Falls			
GEHE	809	-	17
Springer Axel	871	-	14
Zanders Feln.	92.10	-	4.50
NEW YORK ($)			
Rises			
Computer Ass	45⅝	+	5⅝
[illegible]	33⅞	+	3⅛
[illegible]	72⅝	+	3⅝
Vantive	41⅞	+	[illegible]
Falls			
[illegible]	30	-	3
[illegible]	3⅛	-	1⅛
LONDON (Pence)			
Rises			
Innovations	195	+	18
[illegible]	295	+	67
Scottish Power	316	+	8
Falls			
Brit. Biotech	1963	-	67
Goldsborough	134	-	11
Iceland	118	-	34
TORONTO (C$)			
Rises			
Dia-X Minerals	24.60	+	2.85
Hemlo Gold	15.95	+	1.20
PC Docs	20.75	+	2.15
Falls			
[illegible]	10.00	-	0.50
Ensign Res	5.60	-	1.40
PARIS (FFr)			
Rises			
BIC	688	+	33
Imetal	715	+	20
SLIC	880	+	25
Falls			
Damart	3780	-	120
Fonc Lyonnaise	570	-	20
Seb	854	-	16
TOKYO (Yen)			
Rises			
Aoyama Trading	3270	+	90
Nippon Sharyo	1060	+	40
Falls			
[illegible]	526	-	21
[illegible]	2640	-	70
Omron	2150	-	60
Tokyo Electron	3130	-	100
HONG KONG (HK$)			
Rises			
Cafe de Coral	2.35	+	0.225
China Elegance	4.025	+	0.20
Tai Sang Land	3.775	+	0.20
Falls			
First Pacific	11.50	-	0.50
Kwong Sang Hg	2.325	-	0.225
Shanghai Pech	1.86	-	0.195
BANGKOK (Baht)			
Rises			
Bata Shoe	40.50	+	1.50
[illegible]	38.00	+	2.25
Thai Airways	51.50	+	4.25
Falls			
[illegible]	54.00	-	5.50
Italian-Thai	195.00	-	13.00
[illegible]	184.00	-	18.00

New York & Toronto prices at 12.30.

Ford posts surprise 21% advance

By Richard Waters in New York

Ford Motor, which is carrying out an expensive overhaul of its product line-up in the US and Europe, surprised the US stock market yesterday with a 21 per cent jump in net income during the second quarter of the year, to $1.0bn.

The increase owed much to the strength of the US company's financial services businesses and a one-off gain from the sale of *nearly 20 per cent of The Associates*, a financial services unit.

However, the results were notable mainly for the evidence they presented of a fast rebound in earnings in the group's core automotive operations. These had suffered during the previous three months from the costs of launching models of a number of the company's biggest-selling vehicles on both sides of the Atlantic.

The news, which followed strong earnings reports from General Motors and Chrysler in recent days, helped dissipate some of the pessimism that has *hung over the US automotive* companies' stocks.

Yesterday, Ford climbed $1¼, or 4 per cent, during morning trading on Wall Street, to $31¾.

Underpinning Ford's results were after-tax profits of $1.1bn from its automotive operations, a rise of $8m from a year before, on sales which rose 3 per cent to $30.7bn.

That represented an after-tax profit margin of 3.6 per cent – just shy of the 3.9 per cent earned by General Motors' automotive businesses. In the first quarter, Ford's net margin had been only 0.5 per cent, reflecting launch costs that most analysts had also expected to dent its second-quarter results.

While noting the improvement, Mr Alex Trotman, the company's chairman, said: "We still have a lot to do." The benefits of an efficiency drive, which was introduced last year, should show through in the coming quarters, he added.

Profits from the company's US automotive business rose $34m to $697m, while those outside the US fell $26m to $411m.

About $213m of Ford's latest net earnings reflected a $650m gain from The Associates sale, offset in part by a $472m loss on its sale of Budget, a car rental company. Earnings per share for the period were $1.56, or $1.38 before these one-off items – about 18 cents above the market's expectations.

Meanwhile, the company reaffirmed *its generally optimistic* forecast for the US car and light truck markets. Even if the Federal Reserve moves to raise interest rates in August, new vehicle sales this year should reach 15.5m, an increase on 1995, said Mr David McCammon, Ford's vice-president for finance.

He said the company did not expect the recent instability in share prices to have much effect on consumer confidence.

Mercedes trucks chief resigns

By Wolfgang Münchau in Frankfurt

Mr Bernd Gottschalk, head of the commercial vehicle division of Mercedes-Benz, has resigned over "different views" about the German group's internal division of responsibilities, according to the company.

The resignation of one of the top executives in the Daimler-Benz concern comes at a critical time for the commercial vehicles division, whose truck business has lost competitiveness against other European manufacturers, and which is running heavy losses.

The commercial vehicle business had a turnover of DM31.6bn ($21bn) last year, almost a third of the turnover of the entire Daimler-Benz concern. Because of the size, Mercedes has created a sub-structure in the division, comprising five product and two regional sub-units.

Mercedes said Mr Gottschalk's decision was personal and not related to a restructuring programme, which Mercedes is negotiating to enforce at its German truck unit.

Mercedes-Benz said last night that Mr Gottschalk's views about the planing and control functions in the company were not in tune with those of the company.

It said there had been no disagreement about model and market policy. The resignation reflected Mr Gottschalk's frustration about the company's policy of devolving responsibility down the line towards individual business units.

Mr Gottschalk was not available for comment last night.

One industry analyst, who declined to be named, said the move was about "who takes the credit for the eventual turnround in the business".

Mr Helmut Werner, chairman of Mercedes-Benz and a former head of the commercial vehicles division, will assume the role of acting head of the unit, but Mercedes yesterday said that it was looking to find a replacement for Mr Gottschalk.

Mr Gottschalk, 53, has asked the supervisory board to end his contract as of August 1. His contract was due to run until 2000. During the 1980s, Mr Gottschalk held the position as chief of public relations at Daimler-Benz.

Mr Helmut Werner, chairman of Mercedes, said last month that the trucks business would need to incur savings of DM1bn to remain competitive against lower cost European manufacturers, especially Volvo and Scania, the Swedish truckmakers.

Mercedes said recently that it was looking for a DM1bn cost savings programme that would affect all areas of the business, including administration, production and marketing. Negotiations are under way with the works councils in four German truck plants over the implementation of the cost-cutting measures. The plants employ 30,000 staff.

The division also includes a van and a bus manufacturing unit, and Freightliner, Mercedes' US truck company.

Fujitsu aims to produce MO disc next year

By William Dawkins in Tokyo and Alice Rawsthorn in London

Fujitsu, the Japanese electronics group, plans next year to start production of a new generation of computer memory discs with *vast storage capacity*.

The discs, which will also be made by seven other groups including Japan's Sony and Philips of the Netherlands, will challenge the data storage version of digital video discs, DVD-Rom, due on sale next year.

Fujitsu says its magneto-optical or MO discs will be easier to use than DVD-Rom and will have greater storage capacity. An MO disc will store 6-7 gigabytes of sound, video and data, against 2.6 for DVD-Rom.

Fujitsu's plans come as another blow to the DVD consortium, led by Toshiba of Japan, as it tries to conclude negotiations with the entertainment and computing industries over a copyright agreement for DVD.

Toshiba and other prospective DVD manufacturers have been forced to postpone this autumn's planned launch of the first DVD entertainment systems until they have settled the copyright issue. Plans to introduce DVD-Rom next year are also on ice.

The consumer electronics industry had hoped DVD, billed as its most promising product since audio-CDs and video cassette recorders, would stimulate sales in a sluggish market. DVD-Rom's success is seen as vital since many manufacturers suspect it has greater sales potential than the entertainment format.

Plans *for* the MO disc cast a cloud over DVD-Rom's prospects. But the Fujistu camp has yet to finalise MO's specifications. It expects to do so by the end of this year. If production starts on schedule in early 1997, the first *MO discs may go on sale next* year at less than Y10,000 ($90).

Fujitsu hopes the MO discs will become an important medium for services such as video-on-demand and interactive television. Some analysts suspect they will be used in addition to, rather than instead of DVD-Rom.

Some groups are hedging their bets. The MO consortium includes Hitachi and Sharp of Japan which, like Sony and Philips, also plan DVD systems.

Richard Waters surveys this summer's US corporate results season

Bears' fears on earnings put good news in the shade

The summer earnings season is only just cranking into top gear on Wall Street, but already one thing is clear: fears that the US corporate profits miracle is cracking are *largely misplaced*.

Profits warnings in technology and healthcare since last week have fed concerns that US corporate earnings are wilting. After more than four years of surging profits, that would remove one of the pillars that has underpinned Wall Street's rise.

The timing of those warnings has accentuated their impact. Coming after the stock market had already begun to fret about the prospects for an interest rate rise, they have contributed to recent gyrations in the Dow Jones Industrial Average.

Thus far, though, the worst fears that the cyclical peak in earnings has passed are proving unfounded. The double-digit profits growth that has supported the US market's rise may be over: but the indications are that, barring extraneous shocks, earnings are likely to remain solid at least until the end of next year.

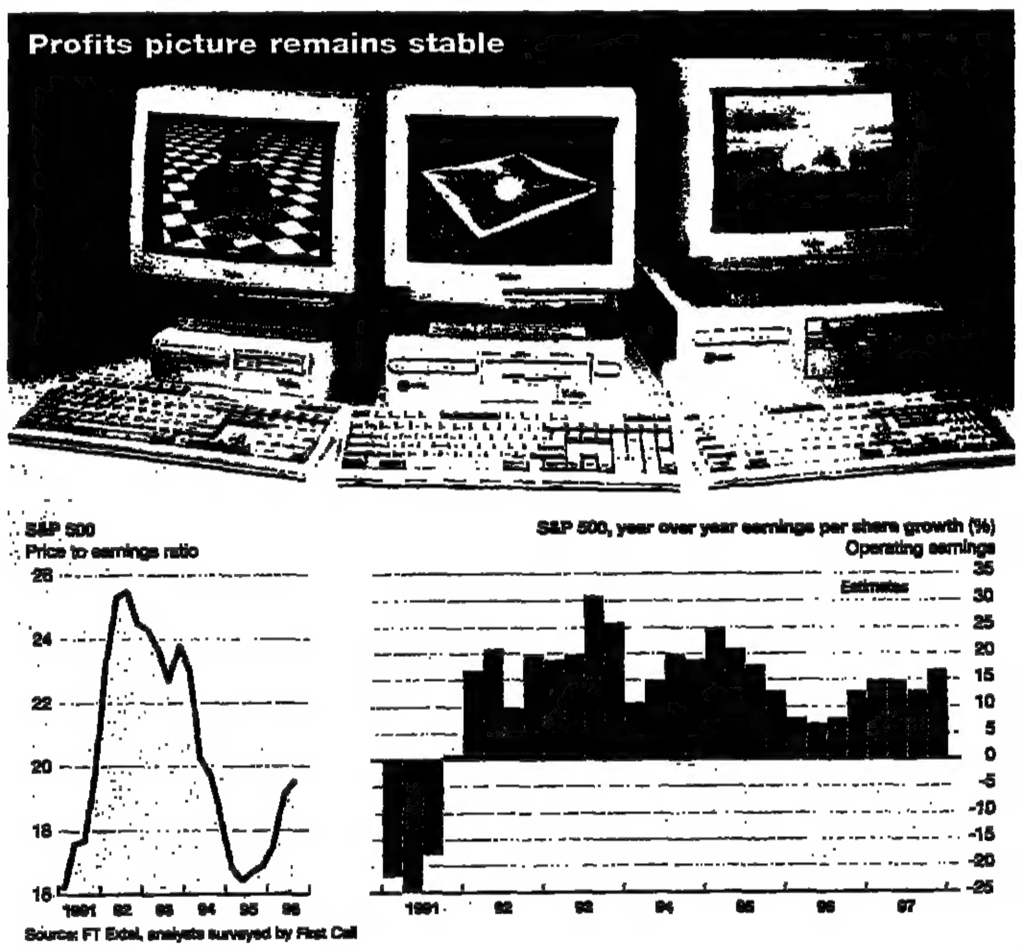
An analysis of the quarter or so of S & P 500 companies that have so far reported second-quarter earnings shows only 16 per cent have failed to meet expectations, says First Call, which monitors analysts' forecasts. Thirty-two per cent have topped forecasts by more than 5 per cent.

Even though expectations are generally managed to a point where nasty shocks are rare, the latest figures have yielded an unusual amount of positive news, says Mr Chuck Hill, director of research at First Call.

The earnings picture so far is based largely on sectors that report early: banks and securities firms, companies in basic industries like paper, *consumer* growth companies, and cyclical stocks such as carmakers.

A number of trends stand out. First, and most clearly, the forces behind the latest phase of the US earnings cycle remain largely in place. Top-line sales growth in most industries has remained moderate against a background *of higher volumes and largely* unchanged prices. The real boost to operating profits, rather, has come from restraining costs.

That is particularly clear in sectors like banking, one of several which have seen a merger-driven *consolidation* in the past two years. Figures this week have shown a marked improvement in the key cost-income ratio at a number of banks, brought about in part through job reductions in the wake of mergers.



Source: FT Extel, analysts surveyed by First Call

Second, growth in earnings per share across the market - the *most common yardstick of how* corporate America is doing - has been supported by big buy-backs. Many groups rewarded shareholders in the current profits boom not by raising dividends - which accounts for the rock-bottom 2.2 per cent yield on the S & P500 - but by using strong cash flow to buy back stock.

At General Electric this contributed to a 13 per cent rise in eps in the latest quarter, outstripping an 11 per cent advance in after-tax profits. Citicorp, the bank which has spent $1.5bn buying its own stock this year, man*aged an 18 per cent advance in* eps on a 12 per cent increase in profits.

Third, the dollar may have rebounded from last year's low point, but this has done little so far to curb the reported profits of US groups which rely heavily on overseas sales.

Three big consumer products groups have stood out in this regard: Coca-Cola, Eastman Kodak and Johnson & Johnson. Each generates a large part of its sales abroad, and so was affected by the dollar's climb. But each met or exceeded *expectations*.

A stronger dollar could have a more serious effect on US corporate earnings further down the road, of course - as could higher interest rates. Companies most directly in competition with Japanese rivals in world markets seem, unsurprisingly, the most concerned.

Rumblings from carmakers - - whose profits boom this decade has been sustained by the dollar's fall against the yen - have been particularly pronounced.

For now, though, neither the dollar's rebound, nor – should it come – an early small rise in interest rates, seem a serious threat to corporate earnings. On both measures, US groups are better off than they were as recently as 1994.

A continuation of the current stable earnings picture would strengthen arguments that the *downward "correction" in US* share prices should not be followed by a more precipitate fall. But it would also suggest that share prices will have trouble rebounding strongly.

Last year's jump in the stock market brought the first expansion in the price/earnings ratio of the US's largest companies since the *profit recovery* of the early years of the decade *(see chart.)*

That earlier increase was justified by the profits boom that followed. But this time round, the outlook seems less exciting.

Day of reckoning, Page 11

MGM share flotation expected in three to five years


Stokes: outlining bid yesterday

By Nikki Tait in Sydney and agencies

Seven Network, the Australian media group which partnered Mr Kirk Kerkorian's Tracinda group in a successful US$1.3bn bid for the MGM film business in the US, said yesterday it was likely that the Hollywood studio would be floated in the next three to five years.

Seven backed the management-led bid for the famous Hollywood studio, which was the unexpected winner on Tuesday in an auction that saw *bids* from *News* Corporation, the media group; PolyGram, the entertainment subsidiary of Philips; and Morgan Creek, a US group backed by Warner Bros.

It is believed Mr Kerkorian put up *just* over *half* the purchase price for the deal, which will bring the roaring lion logo under his control for the third time since 1969.

However, Mr Kerry Stokes, the Perth-based chairman of Seven, said that while details of an offering *had yet to be worked out*, Seven did not anticipate selling its shares at this stage.

He said the group had received a couple of offers for the MGM film library, one of which came from Mr Rupert Murdoch, the *Australian*-born media proprietor. Mr Murdoch's News Corp, owns a 15 per cent stake in Seven. An alternative means of capitalising on the value of the library might be to license it rather than go for a sale. "That would be something considered *by the board at the appropriate* time," he commented.

MGM's assets include film and television production operations, the 1,500-film library, 4,500 home video titles, a global distribution network and one of the best-known brands *in entertainment*.

Shares in Seven fell 9 cents – or about 2.5 per cent – yesterday, to A$3.61 on news that the Kerkorian consortium had been successful. Seven's financial commitment is put at about US$250m – a sizeable figure in the context of a *company which made an after*-tax profit of A$41.3m (US$31.8m) in 1994-95, and about A$54.6m in the previous year. However, Mr Stokes indicated yesterday that he believed additional interest costs should be covered by MGM *profits within three years*.

Management's stake in the buy-out is being financed with funds raised through J. P. Morgan, the investment bank.

News Corp buys New World, Page 14

News Corp in $2.5bn deal to buy New World

By Maggie Urry in New York

Mr Rupert Murdoch's News Corporation threw down a challenge to the three long-established US television networks yesterday when he announced an all-paper agreed bid for 80 per cent of New World Communications, worth $2.5bn. News Corp already has a 20 per cent stake in New World.

The deal, which is subject to regulatory approval, would enable News Corp's Fox Television network to leap-frog NBC, ABC and CBS in terms of the percentage of the population reached through owned and operated stations. It would give Fox coverage of close to 35 per cent of the population, the limit allowed under Federal Communications Commission rules. The networks reach other viewers through affiliated stations.

As a result of the deal, New World has dropped its interest in buying King World, a TV production company.

Mr Murdoch said: "This acquisition continues the momentum towards our goal to become the leading over-the-air free broadcast television network in the US."

In morning trading, News Corp's shares fell $1¼ to $20⅞ while New World's shares jumped $6⅛ to $21¾.

New World, which is controlled by Mr Ronald Perelman, the New York investor and head of the Revlon cosmetics empire, owns 12 stations but has already agreed to sell two to NBC for $425m. The remaining 10 stations are Fox affiliates, after a deal between Fox and New World in 1994.

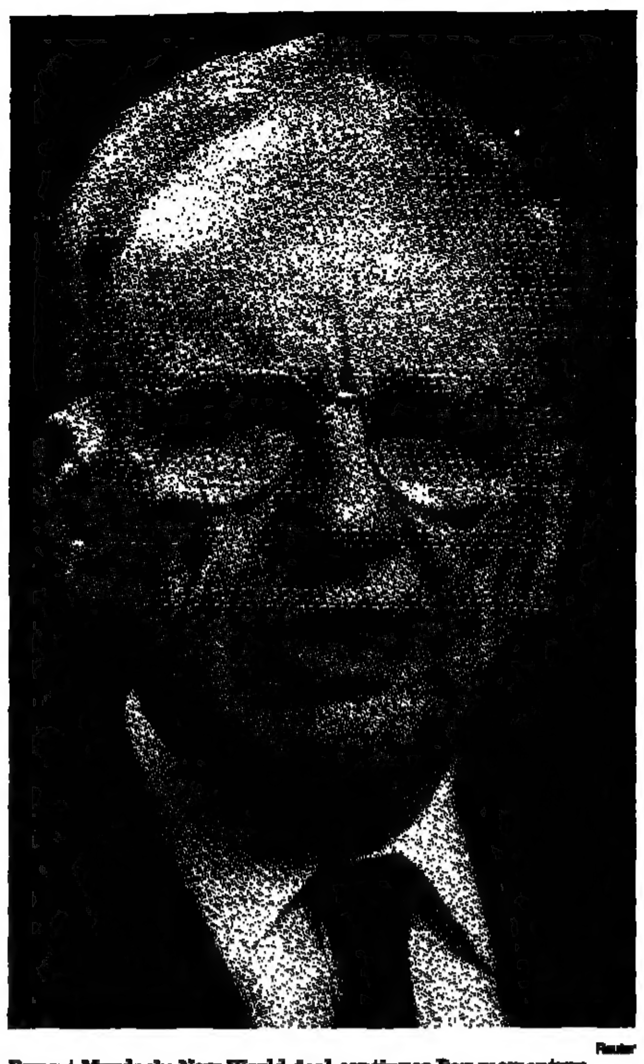
Mr William Bevins, chairman and chief executive of New World, said: "The offer by News Corp represents an extremely attractive opportunity for our shareholders to realise the value [of New World]".

Some analysts said the price being paid for the loss-making New World was high. Mr Michael Diamond, executive vice-president of New World, said that under the affiliation deal New World was only obliged to take limited programming from Fox.

Once Fox controls the New World stations, it will own 22 stations, including nine in the top 10 US markets.

Mr Gary Klein, head of the media and entertainment group at AT Kearney, the management consultants, said the deal "makes all the sense in the world" and that Mr Murdoch was pursuing an aggressive and opportunistic strategy, putting Fox ahead of the other three networks in terms of channels of distribution in major markets. News Corp will finance the purchase through the issue of about 117m new preferred limited voting American Depositary Receipts.

Lex, Page 12



Reuter

Rupert Murdoch: New World deal continues Fox momentum

AMR and TWA post sharp upturn in second period

By Richard Tomkins in New York

AMR, parent of American Airlines, and Trans World Airlines yesterday opened the results season for US airlines by reporting sharp upturns in second-quarter profits, building on the sector's recent recovery.

AMR had net income of $293m, up 65 per cent from the previous year's $178m. Earnings per share rose from $2.08 to $3.20 on a fully diluted basis, well ahead of Wall Street's consensus forecast of $3.13.

TWA reported net profits of $30.4m after preferred stock dividends, up from just $1.2m a year earlier. But the company's fully diluted earnings per share of 45 cents fell well short of the expected 65 cents.

TWA went through a reorganisation under chapter 11 of the US bankruptcy code last year, so earnings per share figures for the prior year were not comparable.

US airlines have recently benefited from growth in the US economy. With more demand for air travel, they have been able to fill a higher percentage of seats without the need for ruinous fare sales.

This year, they have also benefited from the expiry of a 10 per cent tax on ticket sales. This expired on January 1 after the White House and Congress failed to agree on a federal budget.

The expiry of the ticket tax delivered a profits bonanza to airlines, either because they kept fares the same and pocketed the money, or because they lowered fares and attracted more passengers.

Last week, however, the Senate approved a package of legislation that includes a reinstatement of the 10 per cent tax. Once that has been reconciled with a similar House bill and submitted to the president, the tax looks set to return.

Airlines will probably respond by raising ticket prices, but analysts believe that will lead to a fall in passenger numbers and a slowdown in the rate of profits growth seen in the past few quarters.

In the meantime, the airlines are enjoying strong demand for air travel. According to the Air Transport Association, an industry body, passenger traffic rose 5 per cent in April and 7.8 per cent in May, and load factors for June were expected to reach record levels.

In the quarter just ended, American Airlines said its load factor rose from 67.1 per cent to 69.4 per cent, and TWA said its load factor rose from 66.9 per cent to 69.8 per cent.

NEWS DIGEST

General Electric earnings up 11%

General Electric, America's largest company by market value, produced record earnings in its second quarter with an 11 per cent rise to $1.9bn. Earnings per share, boosted by a $9bn share repurchase programme, rose 13 per cent to $1.15.

Revenues rose 7 per cent to $19.1bn, and net profit margins went from 9.7 per cent to 10.0 per cent. GE said operating profit rose at eight of its 12 divisions, with four – the TV network NBC, medical systems, transportation and motors – showing double-digit increases.

Earnings at GE Capital, the financial services subsidiary, rose 19 per cent to $653m. There were double digit increases in consumer services, specialty insurance and specialised financing.

Cash flow from operations rose sharply from $1.6bn to $3.5bn. GE bought back $817m of its stock in the quarter, bringing the total to $4.9bn since its $9bn buyback programme was instituted in December 1994.

Tony Jackson, New York

Reynolds Metals results dented

Falling commodities prices have dented second-quarter results at Reynolds Metals, the US aluminium smelter and fabricator. Net income in the quarter tumbled 45 per cent, to $60m, or 81 cents a share. In the 1995 second quarter, Reynolds had earned $111m, or $1.51.

Second-quarter sales dipped to $1.8bn, compared with $1.9bn in the previous second quarter, even though aluminium shipments rose to 432,000 metric tons, from 426,000 tons in the second quarter of 1995.

"Results were affected by primary aluminium prices 16 per cent lower than the 1995 second quarter, as well as price declines in a number of fabricated products. Continued poor economic conditions in Europe and lingering user destocking in some markets also affected results," said Mr Richard Holder, Reynolds chairman.

For the first six months of the year, Reynolds net income was $62m, or 69 cents share, on sales of $3.5bn. The half-year results were reduced by a charge of $38m, or 60 cents, taken in the first quarter for an accounting change and to cover restructuring costs. Reynolds earned $193m, or $2.64 a share, on sales of $3.5bn in the first half of 1995.

The company warned that weakness in metals prices may persist longer than first forecast. "We are optimistic that aluminium demand fundamentals will improve later in the year, benefiting from a strengthening US economy and a recovery that is expected to begin in Europe," said Mr Holder.

Laurie Morse, Chicago

● Falconbridge, the Canadian nickel, copper, zinc and precious metals producer, posted lower second-quarter and first-half earnings because of weakness in some metal markets.

Mr Frank Pickard, president, said nickel continued to have a very positive outlook. Copper will rebound soon but not to the pre-May levels, he said.

Second-quarter earnings were C$59m (US$43m), or 33 cents a share, down 18 per cent from C$72.3m, or 41 cents, a year earlier, on revenues of C$573m, little changed. First-half earnings were C$131.4m, or 74 cents, against C$168.8m, or 96 cents. Revenues were C$1.15bn against C$1.19bn.

Robert Gibbens, Montreal

Telefónica in Brazilian bid

Telefonica Internacional, the overseas unit of Telefónica de España, has formed a consortium with a number of other companies to bid for a 35 per cent stake in Brazil's state-owned Companhia Riograndense de Telecomunicacoes. Telefónica has formed the consortium with its 43.63 per cent-owned Compania de Telecomunicaciones de Chile unit and Rede Brasil Sul, a local multimedia group. The sale of the 35 per cent stake in CRT through a public tender is expected to be completed by the end of the year, Telefonica said.

Mr Ignacio Santillana, Telefónica chief executive, told AFX News that CRT is owned by the state of Rio Grande do Sul and "could therefore be privatised without any need for constitutional changes". A presence in Brazil is considered to be a necessary part of Telefonica's long-term strategy of creating "a pan-American telecommunications network," he said.

AFX News, Madrid

Safra ahead 17% in first half

Safra Republic Holdings, one of the pillars of Mr Edmond Safra's private banking empire, increased its net income by 17 per cent in the second quarter of 1996 to $46.2m, or $2.63 a share. First-half net income of the Luxembourg-based holding company, which controls one of Switzerland's biggest private banks, increased by 14.4 per cent to $90.3m, or $5.13.

Net interest income in the first half rose by 10.6 per cent to $126.0m and other operating income rose by 21.6 per cent to $56.6m. Operating expenses rose 9.3 per cent to $83.5m in the first six months. The group's total assets have risen by 17.5 per cent to $16.8bn since June 1995 and total shareholders equity is up by 13.7 per cent at $1.49bn, or $84.55 a share.

William Hall, Zurich

Strong demand lifts Computer Associates to record

By Louise Kehoe in San Francisco

Computer Associates reported record results for its first fiscal quarter, buoyed by strong demand for its "client-server" software products used on networks of computers.

Revenues for the quarter ended June 30 jumped 37 per cent to $792.1m from $577.5m in the same period last year. Net income was $119.8m, or 47 cents a share, an increase of 35 per cent over $88.5m, or 35 cents, in the first quarter of fiscal 1996. Per share amounts adjusted for a three-for-two stock split effective July 15 were 32 cents for the latest quarter, versus 23 cents a year ago.

Earnings were well above Wall Street estimates of 42 cents a share and CA opened yesterday at $46⅛, up almost 15 per cent from Tuesday's close of $40⅜. By mid-session CA had given up some of its gains to $45⅝.

CA's results, together with higher-than-expected second-quarter earnings from Intel, the leading semiconductor manufacturer, and strong sales growth at Informix, one of the leading suppliers of computer database software, helped to fuel a rally in US high-tech stocks, which have been down sharply over the past few days.

Sales grew "across the board and in all geographies," said Mr Sanjay Kumar, president and chief operating officer. The company had seen no signs of market weakness, he said.

"Our industry is very strong," said Mr Kumar. Investors' concerns about apparent weakness in the information technology sector have been overly influenced by the profit warnings issues by some companies over the past few weeks, he said. "Unfortunately, the bad news has to come out first."

Demand for client-server software, used on networks of personal computers linked to servers, was very strong during the quarter, with revenues up 50 per cent, Mr Kumar said. In particular, software for high performance computers running the Unix operating system and mid-range computers running Microsoft's Windows NT is selling well, he said.

Mr Kumar also attributed the company's first-quarter strength to a reorganisation, begun in April, in which the company created independent business units to address different segments of the software market and a new sales division to focus on smaller accounts.

Cost cuts bolster BankAmerica

By Richard Waters in New York

BankAmerica, the California-based banking group, continued the string of generally positive second-quarter earnings news from US banks with a 12 per increase in net income, to $723m, and an 18 per cent advance in earnings per share, to $1.84.

Like its competitors, BankAmerica managed to bolster its results through by cost-cutting. Excluding one-off events, its operating expenses rose by less than 1 per cent from a year before. Share buy-backs also contributed to the earnings increase.

The bank's revenues, meanwhile, advanced by 7 per cent, to $3.5bn.

Loan growth was almost entirely cancelled out by a lower net interest margin, which fell from 4.54 per cent to 4.27 per cent, resulting in an advance of only 2 per cent in net interest income.

Non-interest income, meanwhile, rose $182m, or 16 per cent, to $1.3bn, though $82m of this came represented an after-tax gain from the sale of a Hong Kong subsidiary.

The bank's latest results were also aided by a decline in regulatory fees, as a result of the lower deposit insurance premiums now being levied on US banks by the country's Federal Deposit Insurance Corporation.

That led to a $56m decline in overall non-interest expense, to slightly less than $2bn.

HBC plays to its regional strengths

Asian links help bank outperform Canada's Big Six, says Bernard Simon

A *Hongkong Bank of* Canada branch in Vancouver's Chinatown brought forward its opening time by one hour a few years ago as a courtesy to passengers arriving on Cathay Pacific's early morning flight from Hong Kong.

That gesture offers a number of clues to how the wholly-owned subsidiary of HSBC Holdings, the international financial services group, has achieved a measure of success that has up to now eluded foreign banks in Canada.

HBC has become the only foreign bank to succeed in nipping the heels of Canada's six big domestic banks in the retail market. Citibank and Standard Chartered are among others that have tried, but failed.

With assets of C$20.5bn (US$14.95bn) and 115 branches, HBC is now by far the biggest of the 40-odd foreign banks operating in Canada. It is still a minnow, however, compared with its domestic rivals. National Bank of Canada, the smallest of the Big Six, has assets of C$50bn, and the six banks between them have about 7,000 branches.

Mr Bill Dalton, who helped set up HBC 15 years ago and is now its president and chief executive, says: "We are not setting out to be big; we are setting out to be profitable and efficient."

Bill Dalton: bank setting out to be profitable, not big

HBC has consistently outperformed the domestic banks. Profits have grown for the past 10 years in a row. Its 17.8 per cent return on equity in the 12 months to October 1995, rising to 18 per cent in the first half of fiscal 1996, was higher than any of the Big Six.

Royal Bank of Canada, the country's biggest financial institution with 10 times HBC's assets, produced a 17.5 per cent return on equity in the six months to April 30.

Foreign banks, most of them based in Toronto or Montreal, have typically started by targeting corporate customers. But HBC, whose head office is in Vancouver, focused from the outset on the stable retail market, which makes up about 40 per cent of its balance sheet.

Its growth has been propelled by several acquisitions over the past decade, including the local subsidiaries of Australia's ANZ Bank, the UK's Lloyds Bank and, most recently, Barclays.

The inroads it has made in the retail sector stem in part from an advantage that no other financial institution can match – a virtually unassailable foothold in Canada's expanding Asian community. HBC estimates that Asians, mainly immigrants from Hong Kong, account for 30-35 per cent of its business.

According to a competitor, "they made a good strategic move right at the beginning by targeting the segment they're good at". The competitor says, for instance, that HBC branches in Toronto's Chinatown are staffed entirely by Asians, and are decorated in much the same way as Hongkong and Shanghai Bank branches in Hong Kong and other parts of Asia.

At the same time, HBC's international connections help it draw commercial business from the domestic banks' traditional customer base. "No one can process trade finance documentation in Asia like us," Mr Dalton says.

HBC maintains close links with its US sister bank, Marine Midland, whose head office is a stone's throw away from the US-Canada border in Buffalo, New York. Marine Midland's chief executive, Mr James Cleave, was previously in charge at HBC and the two banks regularly exchange staff.

HBC has built on its strengths by offering a widening array of services. Over the past two years, it has set up discount brokerage, asset management and insurance operations, purchased a trust company, and bought the 50 per cent it did not already own of James Capel Canada, its securities arm.

According to a recent Canadian Bankers Association survey of small and mid-sized businesses, 46 per cent of respondents said they were "highly satisfied" with HBC's service. The highest scoring domestic bank was Bank of Nova Scotia, with 27 per cent. Some 87 per cent expressed general satisfaction with HBC, also well ahead of any domestic rival. Surrey Metro Savings, a credit union in the Vancouver area, describes HBC as "a strong competitor" and "one of the most service-oriented banks".

But another competitor points to shortcomings in such specialised services as real estate and mergers and acquisitions. HBC's ability to capture more customers through its relatively small branch network is also limited.

However, Mr Dalton has no ambition to open new branches at a time when electronic and telephone banking appears to be the wave of the future. HBC has invested instead in a large call centre on the outskirts of Vancouver to handle phone and on-line queries.

Mr Dalton says there is little chance of HSBC offering a slice of the Canadian unit to the public. But, he says, "if an appropriate acquisition came along, we would look at it".

COMPANIES AND FINANCE: EUROPE / ASIA-PACIFIC

National Mutual brings forward demutualisation

By Nikki Tait in Sydney

National Mutual, Australia's second largest life insurance group, announced yesterday that it would list on the Australian and New Zealand stock markets in October.

It will become the country's first large life company to complete a demutualisation scheme, beating rival Colonial Mutual group, which plans to begin the process later this year. The AMP Society, Australia's largest life insurer, is also looking at the merits of demutualising – turning itself from a company belonging to policyholders to a conventional shareholder-owned one.

National Mutual is likely to be valued at upwards of A$2bn (US$1.58bn) and a controlling 51 per cent interest will be held by Axa, the French insurer.

National Mutual won policyholders' approval for the demutualisation scheme last August and pledged to list its shares by October 1997 at the latest. But Mr Geoff Tomlinson, managing director, said yesterday that National Mutual saw no reason to delay. "The management team felt that the fundamentals were there," he said.

Mr Tomlinson acknowledged that current stock market conditions did not look too favourable – the Australian market tumbled to a seven-month low this week – but said that the process of first allocating "free" shares to policyholders, as from Monday, and then selling shares not taken up to other investors, would mean a long offer period.

"We'll be out in the market for an extended period of time, and obviously things will go up and down. I don't really see this as a standard initial public offering – we've got Axa there with 51 per cent," he said.

Letters telling policyholders how many shares they are entitled to will go out next week, and they will be able to opt either to accept these or have the shares sold on their behalf. National Mutual Life has around 1.2m policyholders in Australia and New Zealand, and about one-third of these will get the minimum allocation of 200 shares.

Shares not retained by policyholders will go into a two-part offer for sale, with a public offer opening on September 9, and an institutional offer following on October 2. The public sale price will be set at the lower of the retail application price and the institutional sale price.

National Mutual accompanied news of the October listing with a forecast of a A$196m after-tax profit for the year to end-September. This compares with a restated A$115.5m figure in the year to end-September 1995, and A$230.6m in the previous 12 months. The company made A$131.5m in the six months to end-March.

Renault's prospects hinge on room for manoeuvre

Investors in the French carmaker have seen the value of their holdings tumble as misfortunes have piled up, report David Owen and Haig Simonian

Renault, the French carmaker, is developing a device to stop drivers falling asleep at the wheel. Shareholders could be forgiven for hoping the company's top brass have it installed in their offices.

This year has been one to forget for the group, a majority of whose shares are now back in private hands for the first time in more than half a century.

The latest misfortune came with the European sales figures earlier this week. They showed Renault's January-June market share fell from 10.6 per cent to 9.7 per cent. While new car registrations in Europe rose by 4.8 per cent, Renault's sales fell by 3.9 per cent.

The poor data were the latest in a string of mishaps. These began in January with reports that Mr Louis Schweitzer, Renault chairman, had been placed under investigation in connection with a political wire-tapping scandal dating back to the mid-1980s.

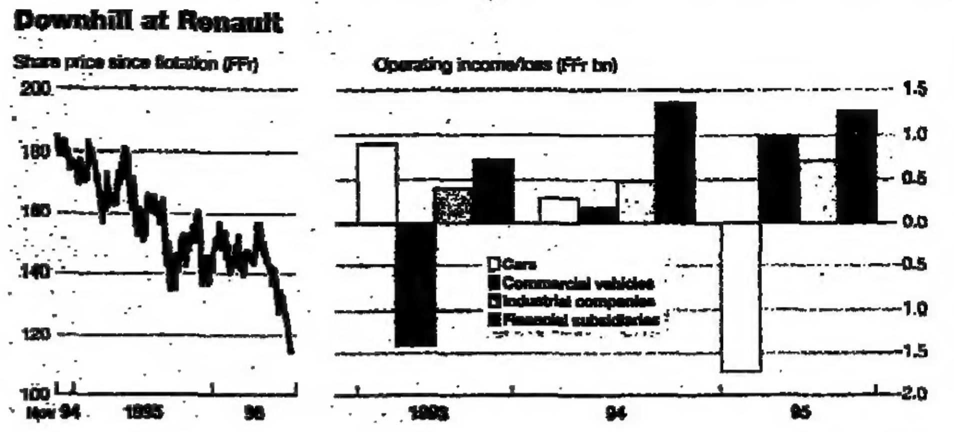
Since then, bad news has continued to flow:

- In mid-January it emerged that Renault-Oyak, the Turkish joint venture, was to halt production temporarily because of a 50 per cent drop in sales.
- In February, the company announced plans to scrap 1,640 jobs at its French plants.
- March brought the announcement of a 41 per cent fall in 1995 net profits. This included a FFr1.7bn ($336.3m) operating loss in cars, blamed on weak European demand, currency depreciations and the introduction of the Mégane, the company's crucial new mid-sized range. A week later, its listed Spanish carmaking subsidiary reported a 64 per cent drop in 1995 pre-tax profits, attributed to a price war.
- In late May came the decision to modify some Mégane models following persistent reports by some French motoring magazines that the vehicle was unstable in certain conditions. Car testers who had defended the Mégane derided Renault for first resisting, and then buckling under the pressure while always defending the car as sound.
- The following month, the group announced it was to quit Formula One motor racing – where it has been conspicuously successful – at the end of next season. Renault said that, having supplied engines to four constructors' championship winners since 1989, the only likely subsequent course was downwards. Observers noted the move would also save a lot of money.

With July now marred by the poor market share figures, it is scarcely surprising Ms Sabine Blümel, car industry analyst at IMI Sigeco in London, says there is "hardly anything which gives me confidence to see a big improvement".

No less surprising is the fact that Renault shares have fallen by nearly 18 per cent this year.

Downhill at Renault



Source: FT Extel

Greater competition from more modern cars is biting into Renault's share of the potentially high-margin market for executive models

The stock has even fallen FFr19 below the level at which a group of financial institutions recently bought into the company's capital in the landmark deal that took the state's holding below 50 per cent. Meanwhile, investors who paid the FFr165 issue price in Renault's November 1994 initial public offering have seen the value of their holdings fall by nearly 30 per cent.

The chances of any quick upturn in the share price – or in Renault's commercial fortunes, with which the shares are intimately linked – seem slim. Renault's stock is clouded by the fact that Sweden's Volvo still owns 11.4 per cent of the company, the legacy of a failed merger attempt. Volvo is anxious to offload - just as soon as the share price reaches what it deems an acceptable level. In mid-May, Volvo indicated the then share price of FFr149.90 was "too low". Yesterday the shares were languishing at FFr115.8.

The French state could also be a seller. It is still thinking of divesting its remaining 46 per cent holding when market conditions permit. This leaves Renault in the unenviable position of knowing that the owners of more than 50 per cent of its capital want to sell.

In the light of so many setbacks, what chance is there of an upturn?

Analysts are not optimistic. "The problem with Renault", says Mr John Lawson of Salomon Brothers, "is doubts about some of the fundamental positions of the company being combined with some pretty hairy reductions in market share".

The group remains, by common consent, too heavily focused on France - a country that, Mr Lawson notes, "seems to be the centre of a [motoring] price war".

Moreover, the successful Clio compact hatchback is showing its age, despite a recent facelift. And the Clio's market segment - which has performed relatively strongly in France because of a government sales incentive scheme favouring small cars - has become particularly competitive with the debut of attractive and keenly-priced vehicles from Volkswagen, Fiat and Ford.

Greater competition from more modern cars is also biting into Renault's share of the potentially high-margin market for executive models, such as the Safrane, and multi-purpose "people carriers" like the Espace.

To set against that, Renault's commercial vehicle sales appear to be holding up well, although some analysts fear the European market may be slowing.

And management has shown it can fight back in the past: Renault was one of only three European carmakers not to book a loss in 1993; the following year it announced it had eliminated its debts, as well as recording net earnings of FFr3.64bn - more than triple the 1993 figure.

The company should also benefit from the gradual appearance of the full Mégane range, including a conventional four-door saloon and an innovative "people carrier". A new Espace is also on the way, while the Safrane is due for a facelift.

In longer term, though, perhaps the most significant factor for Renault's prospects will be whether Mr Schweitzer really is given "the same capacity for strategic manoeuvre as his competitors" - a pledge made by the government when its decision to take its stake below 50 per cent was announced.

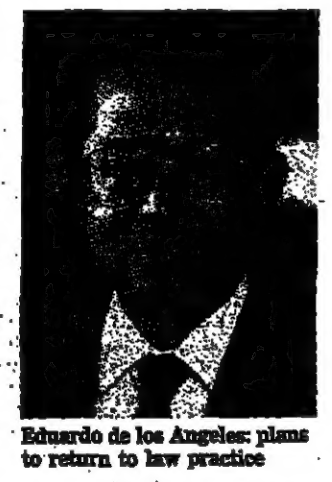
Philippines bourse chief to quit

By Ian MacDonald in London and Reuter in Manila

Mr Eduardo de los Angeles, president and chief executive of the Philippines Stock Exchange, yesterday announced he would not be seeking reappointment when his existing contract expires.

A year ago, Mr de los Angeles was widely expected to be appointed chairman of the Securities and Exchange Commission in Manila following the acrimonious departure of Ms Rosario Lopez, but President Fidel Ramos surprisingly appointed one of the existing commissioners.

Mr de los Angeles decided to stay at the PSE, which was formed three years ago as a result of merging the rival Manila and Makati stock exchanges.



Eduardo de los Angeles: plans to return to law practice

He has played a leading role in bringing the two trading floors under one roof since the merger at a time when the PSE was among the fastest growing exchanges in the Asia-Pacific region.

Yesterday, however, Mr de los Angeles, a 54-year-old corporate lawyer, announced his intention to leave. "My contract ends on September 1 and my intention is to go back (to law practice)," he said.

Mr de los Angeles said he would ensure the start of a central depository before he left. "The plan is that we will start putting in government securities on August 15 and shares of at least one company by the end of August," he said. A depository would do away with the need for share certificates and reduce the amount of paperwork.

He said the PSE's board had already chosen his successor, but he declined to name the person until the choice was finalised.

Cutback by chip makers widens

By William Dawkins in Tokyo

Two more Japanese semiconductor makers, Toshiba and Fujitsu, have announced production cuts in response to the fall in chip prices.

Fujitsu will cut production of four and 16-megabit dynamic random access memories (D-Rams) by 20 per cent, by closing some Japanese production lines for a week in August. Toshiba said its output of D-Rams would fall next month, due to temporary closure at two of its five Japanese plants.

These are the latest in a series of production cuts by chip makers around the world, including Japan's Hitachi, Mitsubishi and NEC.

If continued, the cuts would enable the Japanese semiconductor industry, which represents just over 40 per cent of world supply, roughly to halve its own 15 per cent surplus by the year-end, according to industry analysts in Tokyo.

Earlier this week, Hitachi, Japan's biggest chip maker, said it had halted production at a new plant and postponed investment in new capacity. Rockwell International of the US said it would delay production start-up for at least a year at a semiconductor wafer factory being built in Colorado Springs.

Lex, Page 12

Stork buys Fokker Aviation for Fl 302m

By Gordon Cramb in Amsterdam

The dismantling of Fokker, the failed Dutch aircraft maker, began in earnest yesterday as the receivers sold its profitable components and maintenance division to Stork, a domestic industrial group.

Stork is paying Fl 302.5m ($180.5m) for Fokker Aviation, created by the receivers on March 17 when it became clear there was no immediate buyer for the company as a whole. The deal, which includes the assumption by Stork of a Fl 80m loan, has been made retroactive to that date.

Fokker collapsed when Deutsche Aerospace, its controlling shareholder, refused in January to inject further funds. Potential bidders for the aircraft manufacturer have examined its books, with some arguing that removing the relatively consistent revenue stream generated by the services side made a takeover less attractive.

Fokker Aviation services the company's 1,200 aircraft worldwide and is also licensed to maintain Boeing 737s and F-16 military jets. It makes components for defence and other industries as well as supplying the Fokker fleet and Airbus.

Stork, which last month was granted an exclusive option to buy the unit, has operations spanning printing and packaging, industrial components, engineering and contracting. The group, which made net profits last year of Fl 108m on sales of Fl 4.12bn, has had no previous involvement with the aerospace industry.

Mr Jan Hovers, Stork chairman, told an Amsterdam press conference yesterday that Fokker Aviation's activities were "a logical broadening of the industrial markets in which Stork is active". The acquisition would add some Fl 600m to turnover this year and would already make an unspecified contribution to earnings.

From next year, helped by contracts to update older F-16s, Fokker Aviation revenues are projected at Fl 800m and profitability would match Stork targets for its other businesses.

Mr Louis Deterink, a Fokker bankruptcy trustee, said the separate deal was done with Stork because "continuity of product support was crucial". Without that, regulatory authorities could have begun to cancel airworthiness certificates "and this would have led to a substantial erosion of values of Fokker aircraft".

Fokker is making aircraft to meet previous orders but according to Mr Deterink, "it can still take months before it becomes clear if a buyer for the aircraft builder can be found." He insisted the sale to Stork should not impede rescue prospects for the core operation.

Yakovlev of Russia is the most recent international aerospace group to have expressed interest in Fokker, saying last week that it was contemplating a Fl 370m offer.

SGS-Thomson posts 53% rise at midway

By David Owen in Paris

SGS-Thomson Microelectronics, the Franco-Italian semiconductor manufacturer, yesterday reported "record market share gains" as it unveiled a 53 per cent advance in first-half net earnings.

Mr Pasquale Pistorio, chief executive, said he estimated the company would represent "approximately 3 per cent of the worldwide semiconductor market" in the second quarter.

He added that the company's second-quarter results, when net earnings climbed 43.6 per cent from year-earlier levels, were achieved at a time of difficult market conditions, with total industry sales expected to be down on the figures recorded in the first quarter.

While several of the group's product lines were affected by industry-wide pricing pressures "particularly in June", the impact had been partly offset by strong demand for its specialist products, such as microcontrollers.

Third-quarter revenues are expected to be above the $1,052m recorded in the corresponding period of 1995, but below the second-quarter 1996 figure. The gross margin is expected to be lower than the 40.1 per cent achieved a year ago.

Net earnings for the six months ended June 29 totalled $351.1m on sales of $2.06bn, against $229.5m on sales of $1.64bn in 1995. Earnings per share rose from $1.78 to $2.53. The 1996 figures included a gain of $7.3m on the disposal of an investment.

Second-quarter net earnings rose from $152.6m to $176.1m, with earnings per share rising from 95 cents to $1.27.

Gross profit margins in the quarter reached an unusually high 44.4 per cent, against 40 per cent in the second quarter of 1995. This was attributed to a favourable product mix and a higher rate of utilisation of manufacturing plant.

Capital spending in the first half totalled $660.5m, with the overall figure for 1996 expected to weigh in at about $1bn, similar to 1995 levels.

The company's shares jumped FFr9.6 to FFr164.1 yesterday following the news.

Lex, Page 12; Japanese groups cut production, Page 15

Pasquale Pistorio: impact of pricing pressures partly offset by strong demand for specialist products

Rewe gains E Europe foothold with DM1bn buy

By Judy Dempsey in Bonn

Rewe, the large German food retailing chain, is well-positioned for expansion in the European market, including eastern Europe, after its acquisition of Billa, one of Austria's biggest food retailing groups.

Rewe, which last year posted sales of DM45bn ($32.2bn), and which employs 161,000, is estimated to have paid more than DM1bn for Billa.

The Austrian group had sales of DM7bn in 1995 and has a network of 1,600 branches with 18,000 employees.

Rewe's decision to buy Billa reflects the saturation in German retailing, particularly in the food sector. "Germany is so incredibly saturated in terms of food retailing that retailers have to go outside for higher earnings," said Ms Claire Kent, analyst at Morgan Stanley.

Furthermore, the continuing squeeze on consumer spending in Germany, combined with low economic growth and high unemployment, have meant that Rewe and other retailers are no longer assured of sustained growth from current operations, unless they are prepared for a price war. "It's a simple fact that the retailers are looking outside Germany for growth," said Ms Kent.

In recent months Austria has been a prime target, not only for Rewe, but also for Horbach and Asko, the DIY groups, and other German retailers. Rewe has followed this trend, and gone further by diversifying into television.

Earlier this year it took a 40 per cent stake in Pro-7, the German commercial television network. One of the fastest growing channels in the country, it may be listed on the stock exchange later this year.

Last year, Pro-7 and Quelle, Germany's largest mail order group, jointly set up HOT, a home-shopping television network. HOT is already broadcasting on certain frequencies throughout the country, and although it is in the early stages of development, analysts believe Rewe may use HOT to promote its products, with Billa becoming involved later.

Billa will be crucial for Rewe's strategy of expansion in another way: it will establish a foothold in eastern Europe where Billa has branches in Hungary, Poland and the Czech republic.

And because Rewe is a fiercely aggressive discount retailer, offering the consumer low prices – much like Billa – it is well poised to tap central European markets where the consumer is highly price-conscious.

Dax move drives up shares in Munich Re

By Andrew Fisher in Frankfurt

Shares of Munich Re, the world's largest reinsurance group, rose sharply yesterday after the decision to include them in Germany's Dax index of 30 blue chips. Shares of two demoted companies, Metallgesellschaft and Continental, the tyre group, also rose as uncertainty about their continued inclusion ended.

Deutsche Börse, which runs the Frankfurt stock and futures exchange, said on Tuesday that Munich Re and Deutsche Telekom, which comes to the market in November, would join the Dax. Deutsche Telekom's inclusion had already been decided – its initial public offering will total some DM15bn ($10.1bn) – while that of Munich Re was generally expected.

Munich Re's shares rose DM63 to close at DM3,319. The company said on Friday, when it announced higher than expected results for its financial year, that it expected to join the Dax. Its shares have advanced recently, as institutions that track the index bought ahead of the decision.

The Dax changes will take effect on September 23, with Deutsche Telekom joining after its IPO. Metallgesellschaft, the industrial and trading company that nearly collapsed in 1994 and is now back in profit, will stay in the Dax until Telekom enters. Continental will leave when Munich Re moves up in two months.

Both Continental, whose shares were 63 pfennigs, or nearly 3 per cent, higher at DM23.63, and Metallgesellschaft, up DM1.55 (6 per cent) to DM26.50, will become part of the MDax, comprising 70 medium-sized issues.

Also moving into the MDax will be Tarkett (floor coverings), Puma (sports shoes and clothing) and Rhön Klinikum (health care). Bremer Vulkan, the ailing shipbuilder, Linotype Hell (digital pre-press equipment) and DLW (office furniture and floor coverings) will be leaving the mid-cap index.

World Stocks, Page 30

NEWS DIGEST

Solid overseas sales help bolster Quelle

Quelle, the German mail order group, yesterday reported a 30 per cent rise in pre-tax profits despite a 1.4 per cent fall in domestic sales. Pre-tax profits for the year ended January 1 1996 rose from DM85m to DM110m ($73.7m), but sales dropped from DM12.28bn to DM12.11bn.

Sales in some markets outside Germany, however, rose by as much as 8.3 per cent. In France and Austria, the increase was only 0.9 per cent and 1.2 per cent, respectively. Overall, foreign sales advanced 2.3 per cent, from DM1.63bn to DM1.67bn, confirming that Quelle's non-domestic activities are becoming increasingly important.

Mr Günter Moissl, board member responsible for finance, said Quelle was able to maintain strong pre-tax profits because of improved productivity and pricing structures. The company benefited from the new Leipzig warehouse which came into operation late last year. However, analysts cautioned yesterday that Germany's mail order groups would be hard pressed to maintain strong profits and sales this year. "This part of the retailing sector is really under pressure," said one. "Not only is it becoming more competitive – it is up against an environment which is not conducive to any great push in consumer spending."

Judy Dempsey, Bonn

N America props up Esselte

Improved sales in North America helped Esselte, the Swedish office supplies group, overcome sluggish demand in Europe and the negative impact of a stronger krona. Pre-tax profits in the first half rose from SKr257m to SKr296m ($44.5m), aided by debt restructuring and lower interest charges. Operating profits dipped from SKr322m to SKr321m, while sales dropped 7 per cent to SKr5.7bn from SKr6.1bn last time.

The company, whose brands include Dymo labelling tools and Letraset, said turnover advanced 2 per cent after allowing for currency factors. However, sales were weak in Germany and France, Esselte's two largest and most profitable European markets. Mr Bo Lundquist, chief executive, said the group was planning acquisitions to bolster the office products division, which contributes 60 per cent of revenues. New sales companies will open in the Czech Republic and Hungary during the autumn.

"We are in a good financial position, which will allow us to implement our aggressive strategy for growth," Mr Lundquist said. The company reported substantially improved sales in Canada and the US, due to better penetration of "superstore" retail chains. Esselte also benefited from the restructuring of its US distribution network. Operating profits in the office products division grew from SKr210m to SKr217m, but "brisk" sales of Dymo were unable to prevent a slide in operating profits in the labelling systems unit, from SKr89m to SKr73m.

Greg McIvor, Stockholm

Tesco cools on French rescue

The prospect of a "white knight" bid by Tesco, the UK supermarket chain, to save the French retailer Docks de France from hostile takeover was fading last night. The UK group is understood to have cooled to the idea of a rescue, which could cost it as much as £2.5bn ($3.9bn). However, it has not entirely ruled out an intervention. "It is looking less likely, but not impossible," a source close to the company said.

Docks de France, which owns the Mammouth hypermarket chain, is under siege from Auchan, a privately-owned retailer which has already acquired a 17 per cent stake. French stock exchange rules mean Tesco will have to move before next Tuesday if it wants to mount an alternative bid, which would almost certainly involve a big rights issue.

Meanwhile, Mr Christophe Dubrulle, Auchan's chairman, contributed to the war of words between the two companies by suggesting the Docks de France management had lost its "*sang-froid*". Interviewed in Le Figaro newspaper, Mr Dubrulle also signalled his opposition to an alliance between Docks de France and a non-French chain, saying such a link would be "harmful to all our national suppliers".

Christopher Brown-Humes, London and David Owen, Paris

Greek shipbuilder under pressure

Hellenic Shipyards, the loss-making Greek state shipbuilder, has invited Brown & Root, the UK engineering and project management group, to discuss terms for a five-year management contract. The Greek group is looking for an international manager under a restructuring agreed with the European Union. The offer was made after negotiations with VSEL, the UK shipbuilders, collapsed last week.

The yard's business plan calls for fresh investment of Dr12bn ($50.7m), of which Dr3bn would be covered through bank loans, with the remainder coming through government subsidies and employee contributions. The shipyard's 2,300 employees earlier this year acquired a 49 per cent equity stake in the company from ETVA, a state-owned development bank which has retained the other 51 per cent.

Brown & Root was short-listed with VSEL in a public tender, but dropped out after Hellenic rejected its condition that a submarine-building programme for the Greek navy should be included in the business plan. However, Hellenic is under pressure to install an international manager quickly, after missing a March 31 deadline set by the European Commission for completing the restructuring. Alpha Finance, the investment banking arm of Greece's Alpha Credit Bank, is advising on the appointment.

Kerin Hope, Athens

Counterbid for Montefibre

A counterbid has been launched for Montefibre, the Italian synthetic fibres group, by the Miroglio and Verzoletto families, who have offered L1,300 a share for 51 per cent of the company. A previous bid was made by Finlane, a holding company for the Orlandi family textile group, at L1,200 a share for 45 per cent of the capital. Enichem, the chemicals subsidiary of Eni, Italy's state-controlled oil, gas and chemicals company, recently sold its 66.4 per cent stake of Montefibre's ordinary shares and 46.5 per cent holding of savings shares for L1,100 each through private and public placements, according to press reports.

AFX News, Milan

Fibre maker gives dress rehearsal for privatised Poland

Stilon tests independent management and financing

Poland's mass privatisation programme (MPP) leapt ahead this week with the start of trading on the Warsaw stock exchange in the coupons which entitle Poles to shares in the 15 investment funds set up last year.

The move is a prelude to the flotation of the funds on the bourse next year. The 15m Poles who have already taken up their coupons at a nominal price of 20 zlotys will be able to exchange them for shares in the funds, which manage 512 formerly state-owned companies. The coupons' market debut saw them traded at 104 zlotys before falling to 95 zlotys.

The programme got under way last year when foreign investment banks, working with local partners, were given management roles. They were there to facilitate capital inflows and ensure the companies were restructured.

It has, however, created waves politically, as government-appointed supervisory boards for some of the 15 funds fought with local and foreign management companies appointed to run them. The internal strife appears to be abating, but the main test for the programme will come in companies like Stilon, a synthetic fibres manufacturer in western Poland. Its main factory is the jewel in the crown of the No 2 Fund, managed by UNP, a small Canadian investment fund partnered by the recently privatised Bank Gdanski, and Murray Johnstone, the Glasgow-based investment management company.

Since the early 1950s Stilon has controlled most of the local market supplying garment manufacturers, as well as yarn for industrial uses. Unlike many of the companies in the MPP, it appears to have the worst of its problems behind it.

The challenge facing No 2's managers – led by Mr Jan Bossak – is whether they can bring about the changes needed to allow it to face EU competitors.

Mr Janusz Gramza, its 50-year-old managing director, has been in place since 1986, surviving Poland's transition from communism and a near-fatal decline at the company in the early 1990s. It then saw its domestic textiles market collapse as demand from the former Soviet Union dried up. Losses mounted as Mr Gramza waited for the government, advised by Bankers Trust, to find a strategic investor, but this failed. Realising he was on his own, he decided to restructure Stilon.

In its heyday, the company employed 15,000 in a town of 120,000 inhabitants, and provided housing, transport and other services and facilities. Cost-cutting ended all this and left the workforce cut to 4,500. Local banks and creditors agreed to cut the company's debts, providing further relief. Some divisions, such as transport, were spun off into separate companies, while empty production areas were rented to outside investors.

The revamp coincided with an economic upturn that lifted production from its low of 27,000 tonnes in 1993 to 45,500 tonnes in 1995. These translated into sales worth 381m zlotys ($140m), which produced a small profit.

Last May, Stilon signed an agreement with Akzo Nobel, the Dutch chemical fibres producer, to lease production space. Talks are now under way with Nilstar, a joint venture between Rhône-Poulenc of France and Snia Viscosa of Italy, on a similar deal.

Mr Gramza wants the No 2 investment fund to provide him with "markets, capital and consulting advice". He is seeking bank loans worth $50m to modernise machinery. The fund doubts whether Stilon's investment plan can be financed without a strategic investor.

Indeed, as in many of the 15 funds, top executives at Stilon and the fund managers are treading carefully, aware that if they put a foot wrong to speed up change, a damaging conflict could ensue.

Christopher Bobinski

Investors shun British Biotech rights

By Simon Kuper

The largest single fund-raising exercise by a UK biotechnology company ended in disappointment yesterday when it emerged that owners of only *about half* the shares in British Biotechnology have taken up their rights to new shares.

The decision of so many investors to shun the £143m ($224m) rights issue means that half of the stock being issued will be left in the ownership of sub-underwriters.

This could act as a drag on shares in a company which until recently was one of the UK stock market's star performers.

The rights issue disappointment is the latest in a series of recent setbacks for the biotechnology sector. Over the last week flotations by biotech and drugs companies such as Cambrio, Alizyme and Therapeutic Antibodies have raised less money than initially intended, while Cambrio postponed its debut to the end of the month.

British Biotech, the sector leader with a market value of £1.28bn, last night had yet to announce the result of the issue.

The company's shares fell 87p to £19.63 yesterday, against an issue price of £20.50. They peaked at £32.65 in May.

The company's main pipeline product is marimastat, a drug which might be able to treat most cancers. It has entered phase III clinical trials and could reach the market in 1999.

Kleinwort Benson, underwriter, was left holding no new shares as the issue was entirely sub-underwritten. The 50 sub underwriters, most of them British Biotech shareholders – including Morgan Grenfell, Mercury Asset Management and Legal & General Assurance – hold about £70m of new shares between them. The largest sub underwriter is thought to have been left with about £5m of the stock.

Mr Robin Gilbert, an analyst at Panmure Gordon, said: "It leaves a lot of stock in the hands of people who don't really want to hold it, acting as a drag on the market."

Analysts believe the bear market in biotech stocks is partly due to market satiation.

David S Smith cautious despite 25% advance

By Christopher Price

David S Smith (Holdings), the paper, packaging and office stationery group, yesterday reported a 25 per cent rise in annual pre-tax profits but warned of difficult trading conditions in the current year.

Profits rose to £124.6m ($194.4m) on turnover up 20 per cent to £1.24bn. Despite the increases, the cautious outlook depressed the shares, which slipped 2p to 293p.

The company is the UK's biggest processor of waste paper, prices for which during the year see-sawed between £20 and £120 per tonne. This volatility was reflected in the demand for corrugated cardboard, one of the group's main products, which also varied widely in the period.

Mr Peter Williams, chief executive, said margins had been maintained despite "very difficult trading conditions".

Continuing volatility led to an uncertain outlook. Mr Williams was also cautious on the general economic picture in continental Europe, although the UK appeared brighter.

Paper and packaging increased operating profits 27 per cent to £110.5m.

There were several acquisitions in the period, including a controlling interest in a Polish waste paper group and the purchase of a French plastic crate manufacturer. Further acquisitions are planned.

Colin Beere

Peter Williams (left), with David Buttfield, finance director

Utd Utils to meet investors on scheme

By Jane Martinson and William Lewis

United Utilities, the multi-utility based in the north-west of England, is to meet leading institutional investors soon in an attempt to beat off a threatened shareholder revolt at its annual meeting.

Five institutional investors said yesterday they were keen to enter into talks to resolve concerns over a proposed long term incentive plan (L-Tip) for directors. One, Clerical Medical and General, confirmed it would be voting against the scheme.

The Association of British Insurers said on Tuesday that several of its members planned to vote against the scheme at next week's AGM as the scheme was "over generous and over complex".

Mr John Tetlow, United company secretary, said yesterday the group was unlikely to change the plan, having consulted the ABI and seven large institutions about it before publication, but that it was keen to hold further talks.

Mr William Claxton-Smith, assistant investment manager of Clerical Medical, said that the scheme was not in shareholders' interests. "In general we look at the whole package. And it does appear that this is a fairly generous package."

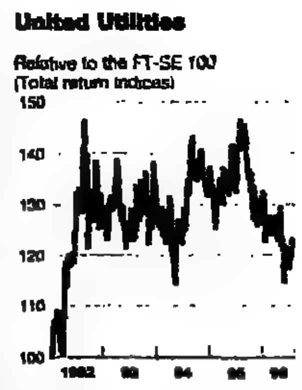
Under stock exchange rules introduced following the Greenbury committee's report on executive pay, companies have to gain shareholder approval before introducing new L-Tips. United requires a simple majority of votes cast at the annual meeting on July 26 for its L-Tip to be passed.

LEX COMMENT

Utd Utilities

Who will challenge the fat cats? At United Utilities, institutional investors seem surprisingly keen to do so. And they are right to ask tricky questions. They should start with the suspicious fact that every target in the company's bonus scheme for executive directors was met in full last year. Then there were the big extra bonuses paid to reward three directors for buying Norweb: if the deal was as good for shareholders as United claimed, surely directors' share options should have been incentive enough. Against this backdrop, it is easy to see why institutions worry that the planned new long-term incentive plan will be too lavish. Assume, say, United's total shareholder return for a particular three year period was in line with the FT-SE100 median, and assume that was a pedestrian 15 per cent: the plan would still pay the company's chief executive a £112,500 bonus. On top he would get up to £130,000 under a separate "short-term" scheme linked to vague internal targets – and his basic salary has been increased 25 per cent to £300,000.

Even if such largesse can be justified for United's chief executive, the institutions are right that granting such rewards to the company's chairman as well is clearly excessive. Nonetheless, the long-term scheme is the wrong target: it is, after all, the part of the directors' new remuneration package which will serve shareholders' interests best. Institutions would do better to concentrate on tightening up the short-term scheme and keeping basic salaries under control.



Source: FT Extel

Iceland shares fall 17% on warning

By Christopher Brown-Humes

Iceland, the frozen food retail chain, saw its shares plunge 17 per cent yesterday after it warned that profits in 1996 would fall for the first time in its 25-year history.

The group, with 4m shoppers a week, blamed disappointing sales, fierce price competition and a store refurbishment programme. It warned that first-half profits would be about 10 per cent below last year's £33.6m ($52.4m) and full-year profits would also be hit.

The problems cast a shadow over the flotation plans of Somerfield, the UK's fifth biggest supermarket chain which is hoping to achieve a value of £540m-£570m.

"All the high street retailers, whether it is Iceland, Somerfield, Kwik Save or the Co-op are losing market share to the superstores," said Mr Frank Davidson, food retail analyst at James Capel. Many of the superstores outlets are out of town.

Analysts questioned whether Iceland, a specialist frozen food retailer, could avoid long-term decline in a market marked by intense rivalry from the big supermarkets. "It's not a brand deficiency, it's a concept deficiency," said Mr Dave McCarthy at BZW.

Analysts, who had been expecting profits of about £73m for 1996, lowered estimates to £62m-£63m, against profits of £72.6m last year. The shares fell 24p to 118p.

Medeva's £34m beats forecast

By Simon Kuper

Medeva, the drugs company, raised *interim* pre-tax profits 17 per cent to £33.9m ($52.9m), nearly £1m higher than the company forecast last month when it announced a big acquisition.

The shares rose 7p to 234p.

It said there was "nothing adverse to report" so far on its $400m acquisition from Rhône-Poulenc Rorer in June of much of Fisons' former US drugs business and some French drugs.

Turnover rose 11 per cent to £129.1m for the six months to June 30. Sales of methylphenidate, Medeva's main drug which treats attention deficit disorder, rose by 25 per cent to £55m, raising its share of turnover from 36 to 43 per cent.

Medeva said the acquisition of the RPR businesses would reduce the company's dependence on methylphenidate. The deal would lift annual sales by a fifth to more than £320m.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Bulmer (HP)	Yr to Apr 26	258.8	(247.1)	25.4♠	(25)	29.92	(29.9)	3.85	Sept 9	7.75	13.2	12
Celebrated ◊	Yr to Mar 31 ★	5.06	(3.85)	0.523♥	(0.319)	2.35	(2.23)	0.27	Oct 1	-	0.27	-
First Technology	Yr to Apr 30	38.8	(32.9)	7.28	(6.27)	30.07	(26.46)	5.3	Oct 15	4.2	8.5	7
Lowe (Robert H)	6 mths to Apr 30	13.66	(7.06)	0.807	(0.678♥)	0.89†	(0.78)	0.1	Nov 1	nil	-	0.2
Medeva	6 mths to June 30	129.1	(115.9)	33.9	(28.9)	7.2†	(6.2)	1.65	Oct 4	1.4	-	4
Merlin Business	Yr to Apr 30	106.3	(93.1)	1.22	(0.92)	0.36	(0.31)	0.06	Oct 3	-	0.09	-
Nabo	Yr to May 3	50.2	(40.5)	2.93	(2.71)	13.33†	(6.2)	4	Oct 1	4	6.2	6.2
Savills	Yr to Apr 30	40	(35.2)	4.14	(3.51)	8.71	(5.6)	2.05	Sept 6	1.75	2.8	2.5
Smith (David S)	Yr to Apr 27	1,236	(1,029)	124.6	(98.7)	30.3	(25.2#)	5.05	Oct 1	4.375#	7.5	6.5#
Worthington	Yr to Mar 31	27.1	(28.4)	2.01	(1.79)	5.7	(6.2)	1.7	Oct 2	1.5	2.5	2.2

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Finsbury Technology	6 mths to May 31	116.3	(97♦)	0.169	(-)	0.6	(-)	-	-	-	-	-
Fleming Intl High	Yr to May 31	43.77	(38.5)	4.4	(4.08)	3.94	(3.65)	2.85	Aug 8	2.7	4	3.7
Rights & Issues	6 mths to June 30	750.5	(689.8)	0.327	(0.193)	8.574	(3.658)	3.5	Sept 30	3	-	10.5
Scottish American	6 mths to June 30 ★	205	(178.7)	5.79	(6.91)	2.59	(3.09)	1.29‡	Oct 4	1.24	-	5

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ◊Aim stock. ★Comparatives restated. #Adjusted for share subdivision. ♦At December 4. ‡Second interim; makes 2.57p (2.47p) to date.

Sema buys Olivetti's facilities offshoot

Sema Group, the Anglo-French computing services company, is acquiring Syntax Processing, the facilities management arm of Olivetti of Italy, writes Alan Cane.

The deal, worth about £64m ($99.8m), will create one of Europe's largest outsourcing operations.

Sema is paying £32.1m immediately for a 75 per cent stake and £22.6m on December 31 1997 for the remainder. It will also pay Olivetti £9.5m for the Syntax name and trademark.

To fund the purchase Sema is raising about £99m after expenses through a 2-for-11 rights issue at 593p a share. The shares rose 14p to 705p on the announcement.

NEWS DIGEST

Polish plan links GWR and BBC

GWR, the Swindon-based commercial radio group, is planning to seek radio operations in Europe in co-operation with the BBC World Service.

The World Service said yesterday that the collaboration with GWR to secure a licence for a network of nine news and talk radio stations in Poland was a pattern for the future.

GWR will have a 33 per cent stake in the venture, but the BBC has an option to take 10 percentage points of GWR's stake.

The World Service has been broadcasting in Polish since 1939 and has a weekly audience of 2.3m. It will provide news, current affairs and other programming to the editors of the Inforadio network in Warsaw.

Mr Gienek Smolar, head of the Polish Service, said yesterday: "The Polish licensing authorities stated that they hoped the participation of the BBC in this venture would bring BBC standards and programme traditions to the Inforadio network."

GWR, which by making acquisitions has become one of the largest radio groups in the UK, has increasingly been expanding abroad. Its interests now include stakes in radio stations in New Zealand, Bulgaria and Austria and it is looking at opportunities in Hungary. *Raymond Snoddy*

Costain rejects criticism

Costain yesterday rejected criticism that it was seeking to railroad shareholders into accepting a rescue refinancing, saying the proposals were the only means of securing continued support from its bankers.

Kharafi, a privately owned Kuwaiti industrial group which owns 19 per cent of the British construction group, has criticised the terms of a £73.6m share issue, expected to leave Intria, a Malaysian construction company, with a 40 per cent stake in Costain. It said the 50p a share offer was inadequate and unfair to existing shareholders. It wants Costain to seek a two to three month moratorium with its bankers to allow time for counter proposals to be drawn up.

Mr Alan Lovell, Costain's chief executive, said existing shareholders could subscribe to the issue and maintain the level of their shareholdings.

The proposals were the result of exhaustive discussions, and were "presently the only available means of securing continued support from the banks" which the group needs to continue trading. Any suggestion of a three month moratorium is therefore unrealistic."

The company needs a simple majority from shareholders at an extraordinary meeting, to be held in London on Monday, for the refinancing to proceed. *Andrew Taylor*

First Maryland ahead at $32.5m

First Maryland Bancorp, the wholly owned US subsidiary of Allied Irish Banks, reported net profit of $32.5m (£21m), up from $29.1m in the three months to June 30, lifting the half year result from $57.7m to $62.6m.

It said asset quality remained strong, with non-performing assets reduced to $48.4m or 0.44 per cent of total assets.

Mr Tom Mulcahy, chief executive, said: "The benefits of the increased focus on developing retail and fee-related businesses are reflected in in the strong profit performance".

BOC expands into Russia

BOC, the international gases group, has made its first move into the Russian industrial gas industry.

It has agreed to pay an undisclosed sum for a controlling interest in the Volgograd Oxygen Factory, one of Russia's top three industrial gases companies, and the leading supplier to industry and hospitals in southern Russia.

Somerfield float given impetus by 43% rise

By Christopher Brown-Humes

Somerfield, the UK's fifth largest supermarket group, has given impetus to its flotation plans by announcing a 43 per cent rise in annual operating profits and continued momentum in the current year.

The group, formerly known as Gateway, achieved better-than-expected operating profits of £100.5m ($157m) for the year to April 27 – despite virtually flat sales of £3.16bn ($4.9bn).

Somerfield benefited from a 1 percentage point rise in its gross margin, increased efficiency, and an estimated 3 per cent rise in like-for-like sales at its upgraded Somerfield stores.

But there was a 4 per cent fall in like-for-like sales at the older Gateway stores, which are steadily being converted to Somerfield formats. There was also a disappointing performance at Food Giant, the discount store chain, where comparable sales dropped by as much as 5 per cent.

Somerfield's figures build on its recovery since 1993, when it was close to collapse under the debt problems of its owner, Isosceles.

However, total like-for-like sales growth last year lagged the industry average of more than 5 per cent. And although the operating margin recovered to 3.2 per cent from 2.2 per cent, it is still well below the 7 to 8 per cent level achieved by the sector leaders.

Somerfield will not provide a pre-tax figure until it presents its flotation prospectus, complete with a pricing range, later this week. However, after estimated interest and exceptional charges of £15m, pro-forma pre-tax profits would come out at about £85m, and after-tax profits at about £57m.

If the group is valued on a p/e of between 9 and 10 – as analysts expect – it could expect to raise between £512m and £570m through the flotation.

However, the group has run into a more difficult new issues market and some analysts remain concerned about its weak brand name, its emphasis on the high street as opposed to out-of-town stores and its lack of sustained record of improving profit.

Mr David Simons, chief executive, dismissed suggestions that the flotation was facing difficulties, but admitted some institutions had expressed concerns about long-term growth prospects in a fiercely competitive market dominated by stronger competitors.

He said the group had had "very positive" feedback from institutions and noted that 80,000 Somerfield shoppers had registered an interest in the sell-off. He suggested pricing had to be realistic.

Mr Simons said the group had made "an excellent start" to the current year, with a higher rate of sales growth than last year. He said: "There is more buoyancy in the market, our brand is getting more established and we have more converted stores."

At the end of the financial year, the group had 343 Somerfield stores, 238 Gateway stores and 28 Food Giants. It has since switched 30 Gateways to the Somerfield format. The group plans to complete its store conversion programme, which has already cost £175m, by the end of next year.

David Simons: 80,000 Somerfield shoppers interested in sell-off

Globalisation stirs Swiss to shake up

Banks face new challenges, writes Norma Cohen

Whatever is happening in Switzerland? For decades, the quiescent clientele of the Swiss banks' fund management arms have been content with a service aimed at guaranteeing their capital and anonymity.

But in recent weeks, two of the three largest banks, Swiss Bank Corporation and Credit Suisse, have announced a shake-up of their corporate structure which includes a reorganisation of their asset management divisions.

Credit Suisse's move, which came only last week, effectively splits the fund management operations into two distinct corporate entities. These are Credit Suisse Private Banking, which is to be part of the bank's domestic Swiss activities, and Credit Suisse Asset Management, an autonomous division within the group's institutional banking arm, Credit Suisse First Boston.

Credit Suisse has not yet talked about the reorganisation's rationale, except for a pronouncement that: "The new structure responds to increasing globalisation and the needs of the group's markets".

But some data from Micropal, which measures the performance of retail investment funds, offers some interesting insights into the strengths and weaknesses of the CS business.

The bank's Swissac domestic equity fund ranks in the top quartile of similar funds over 1-, 3- and 5-year periods and its bond funds show similarly good performance. But its CS Tiger Fund, a Pacific Basin emerging markets fund which is one of the world's largest, ranks near the bottom over similar periods.

Mr Chris Poll, Micropal's chairman, says that the weaknesses of Swiss players generally in international equities is likely to become their Achilles heel. "Swiss banks have operated in a closed-shop environment. But wealth is becoming more international." Mr Poll estimates that 50 to 70 per cent of Swiss assets are from non-domestic clients and these view their wealth as mobile.

Credit Suisse's competitor, SBC, which announced an almost identical structural reorganisation six weeks earlier, cites the changing marketplace as part of its rationale. It has created an global institutional business, SBC Brinson, built around its US acquisition, Brinson Partners, which has an expertise specifically in international equities. It also formed a domestic business which covers the private client asset management divisions.

Moreover, the advent of new pensions laws in Switzerland has increased the demand for fund management.

"Because of the introduction of compulsory pensions (in 1985), Switzerland has become one of the most important asset management centres in the world," says Mr Gabriel Herrera, managing director of Swiss institutional asset management at SBC.

FUND MANAGEMENT

The law requires any employer of three people or more to create an occupational pension scheme. This has spawned a large number of schemes and, perhaps more significantly, has encouraged the managers of some existing schemes to think harder about the investment returns needed to provide benefits. And because equities have offered higher real returns than bonds, fund managers need to demonstrate their expertise in that area as well.

Moreover, some bankers privately say, the recent co-operation which Swiss authorities are giving to law enforcement officials in other countries is encouraging so-called hot money to move elsewhere. So Swiss bankers see fewer clients who only desire are anonymity and capital preservation.

This new competitiveness, Mr Herrera argues, is encouraging the polarisation of the Swiss asset management business. "Either you are a competent local manager or you are a truly global player," he says.

Mr Chris Nowakowski, president of InterSec, the US-based pension investment consultancy, says the changing client base is forcing Swiss banks to change their approach. "Their bread and butter had been an unnamed account who was only interested in capital preservation and didn't care about performance," he says.

"At the same time, we are seeing the growth of institutional asset mangement," Mr Nowakowski says. "And that money is interested in more than just capital preservation."

One indication of how competitive the market has become is that the Swiss Bankers Association has awarded InterSec a contract to measure the performance of individual Swiss funds, although none of its data may be released publicly. Also, from next January, the Association has agreed a format for calculating performance, which bankers may use in their marketing materials.

Another indication of the growing competitiveness is the use of professional consultants to help institutional clients choose a manager. Mr Nowakowski estimates that as many as two-thirds of institutional clients now use a consultant for at least a portion of their funds. This has allowed foreign fund managers to make first inroads into the traditionally closed Swiss market.

However, no one is suggesting the Swiss banks risk losing pole position in their home market any time soon. For one thing, restrictions on pension investments require heavy asset allocations in Swiss bonds and equities, the sectors in which the banks do best.

Second, they are demonstrating their determination to fight back by buying in expertise they do not already have.

"If only the Swiss could combine their reputation and their name with ability and performance," says Mr Poll wistfully. "Then they could have this market sewn up." The only question is whether they have left it too late.

Tomkins sees £250m cuts at Gates

By Tim Burt

Tomkins, the industrial conglomerate, believes it could extract savings of up to £250m ($390m) through improved financial controls and reduced stock levels at Gates Corporation, the US components group it is acquiring for $1.37bn (£870m).

The UK group, which is today expected to report full year pre-tax profits of £320m-£330m (£303m), plans to impose tighter management on Gates's working capital once the deal has been completed at the end of this month.

Mr Ian Duncan, finance director, predicted the savings could be made over three years by applying Tomkins' stock controls at Gates's 41 factories. "Their inventories are unbalanced to market requirements," he said. "At Tomkins, we run at just one third of the inventory they have."

Gates, which manufactures power transmission belts, hoses and connectors, saw its stock levels increase by 19 per cent last year from £170.2m to £203.2m – a period in which pre-tax profits fell from £48.2m to £40.3m. Of those stocks, the value of finished goods held at Gates plants rose from £109.4m to £131.6m.

Some analysts, however, said Tomkins was being too optimistic in its forecasts; one suggested it might save no more than £130m through cost reduction measures.

Nevertheless, Mr Greg Hutchings, chairman, predicted unit costs would fall as Tomkins increased sales of Gates components in emerging markets. He also said there were growth opportunities in Europe, as motor manufacturers switch from chain power transmissions to timing belts.

But Mr Hutchings confirmed there would not be any large-scale redundancies among Gates's 14,000 staff.

Tomkins, meanwhile, has agreed to pay Mr Charles Gates, chairman and chief executive of Gates, $250,000 a year in consultancy fees as a non-executive director of the enlarged group.

It has also pledged to continue an estimated £100m lawsuit against Bando, the Japanese belts manufacturer, over its alleged "misappropriation of trade secrets" and the infringement of Gates patents.

If the legal action is resolved successfully, Tomkins has undertaken to pay up to 80 per cent of the proceeds to the Gates family through the issue of new shares in the UK group.

EBS buys service arm for $150m

By Philip Gawith

The EBS partnership, the electronic foreign exchange broker, has bought Citicorp Dealing Resources from Citibank for more than $150m.

The deal means that EBS, which was developed and is owned by 13 leading foreign exchange banks, becomes a fully integrated company with full control over its support functions.

Previously, CDR provided operations, maintenance and technical services to EBS, but the activities of the two were not always fully harmonised. Now, EBS will be in a position to harness CDR's capacity to its own purposes.

Mr Peter Bartko, chairman of EBS, said: "We expect to quickly realise the benefits of the unified business as we work together on product enhancement, focused marketing and distribution and we intend to maintain and improve our market position."

EBS and Reuters 2000-2, the other electronic broking system, have made large inroads into the foreign exchange market. Together they are believed to have about a 40 per cent market share in the spot broking business.

Nielsen set to lose contract

By Raymond Snoddy

AC Nielsen, the international television ratings and market research group, is in danger of losing a contract in Ireland before it has begun unless it can meet a final deadline.

The company – which is part of Dun & Bradstreet, the information group – was supposed to begin offering a more comprehensive television ratings service to RTE, the Irish national broadcaster, and the Irish advertising industry, on May 1.

But, according to RTE executives, this deadline was not met, and nor was a plan to begin the new ratings service on June 1.

Now Nielsen has been told it has to provide evidence by August 8 that it can offer the new comprehensive ratings research from the beginning of September.

This deadline is seen as final, and if the company cannot meet it the likelihood is that RTE and Irish advertisers could go elsewhere for their ratings research.

Under the terms of the contract – won in a competitive tender – the market research group had to increase the size of the audience panel monitoring viewing habits in Ireland, from 400 to 600.

Accurate audience research is particularly important for RTE, which has to battle against the main British channels available in many parts of Ireland.

Nielsen is in the midst of corporate restructuring. It won the contract from the existing holder, Irish TAM.

Guinness Mahon offshore growth

Guinness Mahon, the London merchant banking arm of the Bank of Yokohama, is to expand its offshore private banking and trust business by buying a 42.6 per cent stake in New World Group Holdings from the US's CoreStates Bank group.

New World has $2bn of funds under administration. Philadelphia International Investment, subsidiary of CoreStates, will retain an equal holding with Guinness Mahon in New World, but Guinness will take over management control.

ugoslav assets
lit 'can proce

edel unit to exte
ectronic trading

CURRENCIES AND MONEY

MARKETS REPORT

Dollar weak ahead of Fed testimony

By Robert Chote

The short-term prospects for the US dollar rest in the hands of Mr Alan Greenspan, the Federal Reserve chairman, who gives his Humphrey Hawkins testimony to Congress today. Following Wednesday's sharp fall, the dollar edged lower yesterday in nervous anticipation.

Trading in the dollar was much calmer yesterday than it had been on Wednesday, helped by rather less violent fluctuations on the US stock market. The US currency closed half a pfennig lower against the D-mark in Europe at DM 1.4865 and half a yen lower at Y108.755.

Wall Street's early recovery helped the dollar, although it could not sustain any of its flirtations above DM1.49.

The D-mark's strength against the dollar was mirrored meanwhile in its performance against most other European currencies. The D-mark rose by five Italian lire to L1025, while the pound dropped 2.2 pfennigs against the D-mark to DM2.3018. But the French franc edged up from FFr3.389 to the D-mark to close at FFr3.387.

■ Fears that the Federal Reserve would raise US interest rates before the next formal meeting of the Federal Open Markets Committee have been all but dispelled by the fragility of Wall Street. The markets have been left all the more reliant on Mr Greenspan for a fresh sense of direction.

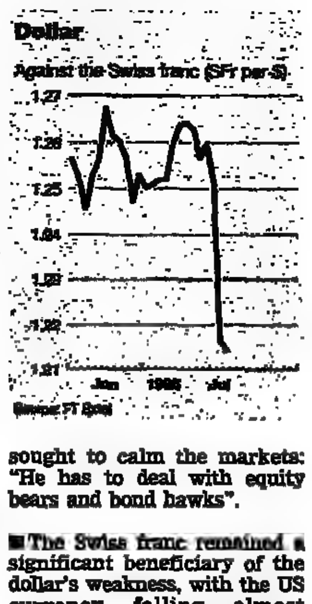
"He is either going to upset the equity market or upset the bond market", said Mr Avinash Persaud, currency strategist at JP Morgan in London. "Either could be bad for the dollar".

Rumours that central banks had been checking prices circulated around the market, but concrete intervention did not materialise. Mr Persaud said that the dollar could probably drop to around DM1.45 and Y106 before the central banks felt compelled to act.

But Ms Alison Cottrell, at PaineWebber, said that if markets collapsed in the aftermath of Mr Greenspan's performance, central banks would probably be powerless to prop the dollar up. Intervention was more likely if it started slipping again a couple of weeks deeper into the holiday season.

The chance of a cut in German interest rates next week have been increased by the strength of the D-mark relative to the dollar, according to Mr Gerard Lyons, at DKB International. He added that the strength of the D-mark was clearly unwarranted, although trends would clearly be uncertain for the next few days.

Mr Lyons also pointed out Mr Greenspan's dilemma if he sought to calm the markets: "He has to deal with equity bears and bond hawks".



■ The Swiss franc remained a significant beneficiary of the dollar's weakness, with the US currency falling almost another centime to SFr1.2145.

Mr Persaud said that the long-term significance of the dollar's recent weakness depended in part on whether it remained a US phenomenon or whether it developed into a more general unwinding of positions reflecting greater aversion to risk.

He noted that many investors remained happy with high yielding European bond markets, and were worried simply by the currency outlook.

■ Sterling had a difficult day yesterday, descending to a nine-week low against the D-mark as it suffered in sympathy with the dollar.

Against a basket of currencies the pound opened 0.4 points lower at 85.1 per cent of its 1990 value, before slipping by a further 0.3 points during European trading. "That was a big move by any measure", said Mr Lyons. Sterling also fell almost a cent to $1.5485.

Analysts said that sterling's travails were largely a reflection of its umbilical link to the dollar, although investors also appear increasingly concerned by differences over interest rates between Mr Kenneth Clarke, the chancellor, and Mr Eddie George, the governor of the Bank of England.

The minutes of the June 5 meeting revealed that Mr Clarke overruled Mr George's objections in cutting interest rates by a quarter-point. Economists fear a repeat performance when they next meet at the end of this month.

The fall in average earnings growth from to 3.5 per cent in the year to May was a welcome surprise, but had little impact.

Mr Steve Barrow, at Chase in London, said he doubted that sterling's decline would continue for long, as it reflected position-unwinding rather than fresh position-taking.

■ Pound in New York

Jul 16	Latest	Prev. close
£ spot	1.5465	1.5580
1 mth	1.5481	1.5595
3 mth	1.5462	1.5592
1 yr	1.5486	1.5632

■ OTHER CURRENCIES

Jul 17	£	$
Czech Rp	41.4755 - 41.5307	26.7930 - 26.8130
Hungary	[illegible]	[illegible]
Iran	[illegible]	[illegible]
Kuwait	0.4625 - 0.4647	0.2980 - 0.3000
Poland	4.1657 - 4.1758	2.6910 - 2.6960
Russia	[illegible]	5146.00 - 5151.00
U.A.E.	5.6850 - 5.6891	3.6725 - 3.6730

POUND SPOT FORWARD AGAINST THE POUND

Jul 17		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	18.1962	-0.1577	874 - 069	18.3285	18.1822	18.1689	2.3	18.092	2.6	-	-	105.3
Belgium	(BFr)	47.4399	-0.4439	185 - 614	47.7190	47.3220	47.3449	2.4	47.1649	2.4	46.3649	2.5	107.2
Denmark	(DKr)	8.8773	-0.0841	724 - 822	8.9326	8.8702	8.8635	1.9	8.8432	1.5	8.7254	1.6	106.3
Finland	(FM)	6.9929	-0.1122	850 - 007	7.0580	6.9830	6.9885	0.8	6.9804	0.7	-	-	85.1
France	(FFr)	7.7978	-0.0767	937 - 018	7.8529	7.7861	7.7855	1.9	7.7628	1.8	7.6894	1.6	110.0
Germany	(DM)	2.3018	-0.0224	008 - 092	2.3174	2.2975	2.2974	2.3	2.2889	2.3	2.2496	2.5	109.9
Greece	(Dr)	365.543	-2.767	297 - 788	367.972	365.289	-	-	-	-	-	-	67.7
Ireland	(I£)	0.9675	-0.0039	667 - 683	0.9723	0.9663	0.967	0.6	0.9656	0.7	0.9613	0.6	99.0
Italy	(L)	2359.21	-11.13	745 - 099	2371.05	2355.97	2364.76	-2.8	2374.81	-2.6	2407.11	-2.0	78.0
Luxembourg	(LFr)	47.4399	-0.4439	185 - 614	47.7190	47.3220	47.3449	2.4	47.1549	2.4	46.3699	2.5	107.2
Netherlands	(Fl)	2.5839	-0.0253	827 - 851	2.6007	2.5796	2.5778	2.5	2.5658	2.8	2.5181	2.5	107.3
Norway	(NKr)	9.9117	-0.0818	030 - 204	10.0015	9.8977	9.9058	1.0	9.8862	1.0	9.8027	1.1	96.9
Portugal	(Es)	236.882	-2.28	795 - 089	239.021	235.465	237.307	-2.2	238.212	-2.2	-	-	95.3
Spain	(Pta)	194.805	-1.353	707 - 898	196.326	194.379	195.063	-1.6	195.578	-1.6	196.978	-1.1	80.7
Sweden	(SKr)	10.2680	-0.1024	586 - 773	10.3737	10.2515	10.2680	0.0	10.2684	0.0	10.2684	0.0	89.0
Switzerland	(SFr)	1.8805	-0.0241	798 - 814	1.9000	1.8784	1.8755	3.2	1.8647	3.4	1.8165	3.4	112.5
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	84.8
Ecu	-	1.2227	-0.0094	219 - 235	1.2292	1.2209	1.2214	1.3	1.2184	1.4	1.206	1.4	-
SDR†	-	1.079200	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5463	-0.0092	457 - 469	1.5589	1.5455	-	-	-	-	-	-	-
Brazil	(R$)	1.5585	-0.0085	579 - 591	1.5686	1.5559	-	-	-	-	-	-	-
Canada	(C$)	2.1236	-0.0129	223 - 248	2.1380	2.1214	2.1231	0.4	2.1195	0.8	2.1114	0.6	83.9
Mexico	(New Peso)	11.8484	-0.0864	391 - 537	11.9614	11.8346	-	-	-	-	-	-	-
USA	($)	1.5485	-0.0091	480 - 489	1.5594	1.5460	1.5481	0.3	1.5488	-0.1	1.5513	-0.2	98.4
Pacific/Middle East/Africa													
Australia	(A$)	1.9829	-0.0049	817 - 841	1.9894	1.9818	1.9855	-1.6	1.9705	-1.5	1.9958	-1.7	92.7
Hong Kong	(HK$)	11.9804	-0.07	761 - 846	12.0633	11.9622	11.9723	0.6	11.9607	0.7	11.9409	0.3	-
India	(Rs)	55.4348	-0.2497	089 - 604	55.8720	55.0530	-	-	-	-	-	-	-
Israel	(Shk)	4.9321	-0.0284	268 - 374	4.9638	4.9196	-	-	-	-	-	-	-
Japan	(Y)	168.402	-1.774	288 - 520	170.380	168.150	167.677	5.2	166.187	5.3	159.772	5.1	133.5
Malaysia	(M$)	3.8502	-0.0226	483 - 521	3.8765	3.8449	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2486	-0.0155	448 - 484	2.2681	2.2442	2.2516	-2.7	2.2611	-2.6	2.2949	-2.1	108.0
Philippines	(Peso)	40.5482	-0.2396	957 - 967	40.7990	40.4639	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.8075	-0.0343	056 - 093	5.8482	5.7984	-	-	-	-	-	-	-
Singapore	(S$)	2.1960	-0.0113	946 - 974	2.2083	2.1937	-	-	-	-	-	-	-
South Africa	(R)	6.8001	-0.1024	942 - 059	6.9019	6.7893	-	-	-	-	-	-	-
South Korea	(Won)	1259.51	-7.44	899 - 003	1268.26	1257.67	-	-	-	-	-	-	-
Taiwan	(T$)	42.5892	-0.2458	675 - 109	42.9786	42.5310	-	-	-	-	-	-	-
Thailand	(Bt)	39.2068	-0.2784	799 - 338	39.4760	39.1600	-	-	-	-	-	-	-

† Rates for Jul 16. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jul 17		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	10.4609	-0.0398	570 - 648	10.4975	10.4270	10.4414	2.2	10.3994	2.4	10.2158	2.3	104.3
Belgium	(BFr)	30.6370	-0.105	320 - 420	30.7470	30.5000	30.582	2.2	30.467	2.2	29.927	2.3	106.7
Denmark	(DKr)	5.7330	-0.0203	315 - 345	5.7520	5.7122	5.7255	1.6	5.7065	1.7	5.6395	1.6	107.6
Finland	(FM)	4.5161	-0.0455	123 - 198	4.5455	4.5022	4.5098	1.7	4.4976	1.6	4.4521	1.4	84.0
France	(FFr)	5.0359	-0.0185	347 - 370	5.0552	5.0178	5.029	1.7	5.0147	1.7	4.9488	1.6	109.2
Germany	(DM)	1.4865	-0.0057	860 - 870	1.4920	1.4810	1.484	2.0	1.4782	2.2	1.45	2.5	108.6
Greece	(Dr)	236.070	-0.39	950 - 190	236.930	234.450	237.745	-8.5	241.085	-8.5	255.07	-8.0	66.8
Ireland	(I£)	1.6005	-0.003	996 - 014	1.6077	1.5940	1.6011	-0.4	1.6019	-0.4	1.5935	0.4	-
Italy	(L)	1523.60	+1.21	289 - 430	1529.10	1512.81	1528.25	-3.7	1536.5	-3.4	1558.25	-2.3	78.0
Luxembourg	(LFr)	30.6370	-0.105	320 - 420	30.7470	30.5000	30.594	2.1	30.4775	2.1	29.997	2.1	106.7
Netherlands	(Fl)	1.6667	-0.0065	634 - 690	1.6749	1.6601	1.6654	2.4	1.6623	2.5	1.6265	2.6	106.6
Norway	(NKr)	6.4011	-0.0149	975 - 048	6.4323	6.3629	6.3981	0.6	6.3926	0.5	6.3561	0.7	98.2
Portugal	(Es)	152.980	-0.565	930 - 030	153.820	152.080	153.295	-2.5	153.885	-2.4	156.03	-2.0	95.2
Spain	(Pta)	125.805	-0.13	780 - 830	126.450	125.200	126.065	-2.4	126.485	-2.2	128.025	-1.8	80.5
Sweden	(SKr)	6.6311	-0.0268	270 - 352	6.6858	6.6042	6.6421	-2.0	6.6596	-1.7	6.7016	-1.1	88.5
Switzerland	(SFr)	1.2145	-0.0063	142 - 147	1.2245	1.2083	1.2109	3.5	1.2035	3.6	1.17	3.7	111.4
UK	(£)	1.5485	-0.0091	480 - 489	1.5594	1.5460	1.5481	0.3	1.5487	-0.1	1.5513	-0.2	85.1
Ecu	-	1.2665	+0.0022	660 - 669	1.2728	1.2635	1.2672	-0.7	1.2689	-0.8	1.2777	-0.9	-
SDR†	-	0.68940	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9986	-	985 - 987	0.9989	0.9984	-	-	-	-	-	-	-
Brazil	(R$)	1.0065	+0.0004	064 - 066	1.0067	1.0063	-	-	-	-	-	-	-
Canada	(C$)	1.3716	-0.0002	713 - 718	1.3725	1.3684	1.3714	0.1	1.3717	0.0	1.3745	-0.2	83.1
Mexico	(New Peso)	7.6505	-0.0105	480 - 530	7.6540	7.6480	7.812	-25.3	7.997	-18.1	8.7005	-27.9	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	97.4
Pacific/Middle East/Africa													
Australia	(A$)	1.2676	+0.0043	673 - 681	1.2718	1.2660	1.2696	-1.9	1.2731	-1.7	1.2918	-1.9	94.5
Hong Kong	(HK$)	7.7370	+0.0005	365 - 375	7.7375	7.7360	7.7377	-0.1	7.7395	-0.1	7.7665	-0.4	-
India	(Rs)	35.8000	+0.05	000 - 000	36.1000	35.5900	35.95	-5.0	36.255	-5.1	37.725	-5.4	-
Israel	(Shk)	3.1852	+0.0016	827 - 877	3.1912	3.1772	-	-	-	-	-	-	-
Japan	(Y)	108.755	-0.5	710 - 800	109.570	108.680	108.31	4.8	107.41	4.9	103.67	4.7	133.4
Malaysia	(M$)	2.4865	-	860 - 870	2.4878	2.4846	2.4874	-0.4	2.4935	-1.1	2.517	-1.2	-
New Zealand	(NZ$)	1.4507	-0.0018	501 - 516	1.4528	1.4500	1.4538	-2.8	1.4598	-2.5	1.4843	-2.3	-
Philippines	(Peso)	26.1850	-	800 - 100	26.2100	26.1600	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-	504 - 506	3.7507	3.7504	3.751	-0.1	3.7517	-0.1	3.755	-0.1	-
Singapore	(S$)	1.4182	+0.0011	177 - 187	1.4185	1.4155	1.4148	3.0	1.4098	2.7	1.3832	2.5	-
South Africa	(R)	4.3915	-0.04	890 - 940	4.4300	4.3895	4.439	-13.0	4.529	-12.5	4.8665	-10.8	-
South Korea	(Won)	813.400	-	300 - 500	-	-	-	-	-	-	-	-	-
Taiwan	(T$)	27.5690	+0.0045	630 - 750	27.5770	27.5200	27.574	-0.2	27.579	-0.1	-	-	-
Thailand	(Bt)	25.3200	-0.08	100 - 300	25.3370	25.3100	25.4187	-4.7	25.6225	-4.8	26.505	-4.7	-

† SDR rate per $ for Jul 16. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jul 16: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

July 17	Over night	One month	Three mths	Six mths	One year	Lomb. inter	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.00	2.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.00	2.50	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.55	-	5.60
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.60	-	5.60
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.30
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.30
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.25
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.25
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	9.00	9.30
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	9.00	9.30
Netherlands	[illegible]	3	[illegible]	[illegible]	[illegible]	-	3.00	3.30
week ago	[illegible]	3	[illegible]	[illegible]	[illegible]	-	3.00	3.30
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.00	1.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.00	1.50	-
US	[illegible]	[illegible]	[illegible]	[illegible]	6	-	5.00	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	[illegible]	-
■ $ LIBOR FT London								
Interbank Fixing	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	5.16	5.34	5.46	5.75	-	-	-
week ago	-	5.16	5.35	5.53	5.90	-	-	-
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Jul 17	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	4 - [illegible]	[illegible]	[illegible]
D-Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	3 - [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible] - 5	[illegible]	[illegible]	[illegible]	[illegible]	6 - [illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	5 - [illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible] - 6
Italian Lira	[illegible]	[illegible] - 9	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate (FFr 5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	96.07	96.06	+0.04	96.10	96.05	26,508	71,733
Dec	95.90	95.91	+0.05	95.94	95.88	14,226	47,162
Mar	95.68	95.71	+0.09	95.73	95.65	6,860	[illegible]

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	95.46	95.51	+0.06	95.51	95.46	1195	5457
Mar	95.28	95.31	+0.05	95.31	95.26	792	3094
Jun	94.98	95.01	+0.06	95.01	94.97	426	2403

* LIFFE futures also traded on APT

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

June 17		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.71	16.44	4.852	2.040	4973	5.447	20.89	499.4	410.6	21.85	3.965	2.108	4.477	3.265	355.0	2.576
[illegible]		[illegible]																

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

UK INTEREST RATES

LONDON MONEY RATES

Jul 17	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bank Bills	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Local authority deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market deps	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

UK clearing bank base lending rate 5¾ per cent from June 6, 1996

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	94.30	94.29	-0.01	94.30	94.27	9751	85577
Dec	94.21	94.20	-0.01	94.22	94.18	21710	95895
Mar	93.90	93.89	-0.01	93.92	93.86	10288	62682
Jun	93.48	93.45	-0.01	93.48	93.43	3598	43847
Sep	93.00	[illegible]	-0.01	93.03	92.98	1381	30476

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	Calls Sep	Calls Dec	Calls Mar	Puts Sep	Puts Dec	Puts Mar
9425	0.11	0.16	0.15	0.07	0.21	0.51
9450	0.02	0.07	0.09	0.23	0.37	0.70
9475	0	0.02	0.04	0.48	0.57	0.90

Est. vol. total, Calls 3798 Puts 5596. Previous day's open int., Calls 124553 Puts 109399

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	Calls Jul	Calls Aug	Calls Sep	Puts Jul	Puts Aug	Puts Sep
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	Calls				Puts			
[illegible]	[illegible]				[illegible]			

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	Calls			Puts		
[illegible]	[illegible]			[illegible]		

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	Calls			Puts		
[illegible]	[illegible]			[illegible]		

BASE LENDING RATES

	%		%		%
Adam & Company	5.75	Duncan Lawrie	5.75	Royal Bk of Scotland	5.75
Allied Trust Bank	5.75	Exeter Bank Limited	6.75	●Singer & Friedlander	5.75
AIB Bank	5.75	Financial & Gen Bank	7.00	●Smith & Williamson Secs	5.75
●Henry Ansbacher	5.75	●Robert Fleming & Co	5.75	Scottish Widows Bank	5.75
Bank of Baroda	5.75	Girobank	5.75	TSB	5.75
Banco Bilbao Vizcaya	5.75	●Guinness Mahon	5.75	United Bank of Kuwait	5.75
Bank of Cyprus	5.75	Habib Bank AG Zurich	5.75	Unity Trust Bank Plc	5.75
Bank of Ireland	5.75	●Hambros Bank	5.75	Western Trust	5.75
Bank of India	5.75	Heritable & Gen Inv Bk	5.75	Whiteaway Laidlaw	5.75
Bank of Scotland	5.75	●Hill Samuel	5.75	Yorkshire Bank	5.75
Barclays Bank	5.75	C. Hoare & Co	5.75		
Brit Bk of Mid East	5.75	Hongkong & Shanghai	5.75		
●Brown Shipley & Co Ltd	5.75	Julian Hodge Bank	5.75		
Citibank NA	5.75	●Leopold Joseph & Sons	5.75		
Clydesdale Bank	5.75	Lloyds Bank	5.75		
The Co-operative Bank	5.75	Meghraj Bank Ltd	5.75		
Coutts & Co	5.75	Midland Bank	5.75		
Credit Lyonnais	5.75	* Mount Credit Corp	8.00		
Cyprus Popular Bank	5.75	NatWestminster	5.75		
		●Rea Brothers	5.75		

● Members of London Investment Banking Association
* In administration

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]

©Energy Settlements and Information Services Limited

LEGAL NOTICES

In the High Court of Justice No.003030 of 1996
Chancery Division Companies Court
IN THE MATTER OF HANSON OVERSEAS HOLDINGS LIMITED
AND
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice, Chancery Division, Companies Court, dated Wednesday 10th July 1996, confirming the cancellation of the share premium account of the above-named Company [illegible] May 1996 approved by the Court, showing the several particulars required by the above-mentioned Act was registered by the Registrar of Companies on 15th July 1996 and a Certificate of Registration by the Registrar of Companies was issued on 15th July 1996.

[illegible]
[illegible] Street
London EC4Y 0[illegible]
Solicitors for the above-named Company

In the High Court of Justice No.003762 of 1996
Chancery Division Companies Court
IN THE MATTER OF REALISATION COMPANY PLC
AND
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition was on 4th July 1996 presented to Her Majesty's High Court of Justice for the confirmation of the reduction of the Capital of the Company from £7,500,000 to £300,000.

AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be heard before the Registrar of the Companies Court at the Royal Courts of Justice, Strand, London, WC2A 2LL on 31st July 1996.

ANY creditor or shareholder of the said Company desiring to oppose the making of an Order for the confirmation of the said reduction of Capital should appear at the time of hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any such person requiring the same by the under mentioned solicitors on payment of the regulated charge for the same.

Gouldens of 22 Tudor Street,
London EC4Y 0JJ
Solicitors for the above named Company
(Tel: 0171 583 7777)
Ref. AOB/335/K68278

COMMODITIES AND AGRICULTURE

EU farm commissioner outlines plans to 'rebalance' beef market

By Neil Buckley in Brussels

Mr Franz Fischler, European Union agriculture commissioner, yesterday outlined plans to "rebalance" the beef market in the wake of the "mad cow" crisis, including subsidies on calves sent for slaughter and a new European Commission purchase programme for younger cattle.

He warned, however, that the plans – likely to cost billions of Ecus – would have to be paid for out of the existing agricultural budget. That could mean a sharp cut in subsidies paid to arable farmers, which EU ministers have criticised as over-generous.

Mr Fischler discussed the plans with other commissioners in Strasbourg yesterday and will present them to agriculture ministers in Brussels next week. He hopes to publish formal proposals by the end of the month so that action can be taken quickly after the commission's August recess.

"Urgent and radical action is needed to help cushion producers against the worst effects of the BSE crisis and avoid a massive build-up of beef stocks in public storage which would overhang and depress beef prices for the indefinite future," Mr Fischler said.

He warned that beef consumption had fallen 11 per cent since the "mad cow" crisis began, and prices had fallen 15 per cent, putting great pressure on beef producers.

Mr Fischler's "supply" side measures include introducing an intervention programme – involving purchases by the commission to support the market – for young cattle of eight to nine months, reducing rights to beef subsidies on older cattle, and obliging all EU states to introduce a calf slaughter subsidy which has been voluntary since 1992.

He said the Commission had already intervened in the market to buy 180,000 tonnes of beef since April, and expected to have bought 600,000 tonnes by the end of the year. With each 100,000 tonnes costing Ecu210m-230m, that would put the total cost of the intervention programme alone at up to Ecu1.38bn ($1.7bn).

As new Gatt rules prevent the EU from selling surplus beef stocks cheaply into the world market, Mr Fischler warned that "over-production today would have to be off-set by under-production in the future".

On the "demand" side, he proposed rebuilding consumer confidence in beef through commission-sponsored promotion campaigns and a labelling programme to reassure consumers of the safety of beef.

Meanwhile, the commission's special "multi-disciplinary" committee set up to monitor the phased lifting of the ban on UK beef exports postponed until next month a decision on whether tighter conditions must be imposed before the ban can be lifted on exports of gelatine derived from UK beef.

Agreement to lift the gelatine ban was reached last month, subject to certain conditions. But recent research into the safety of gelatine manufacturing suggested the conditions might not be strict enough.

● The European Parliament will today give the go-ahead for a special inquiry into charges that the European Commission covered up the risks of "mad cow disease" as far back as 1990, writes Lionel Barber in Strasbourg.

The inquiry will examine allegations that an internal memorandum at the time called for disinformation to counter press interest in bovine spongiform encephalopathy. The Commission has dismissed the memo as a spoof and vigorously denies all charges of a cover-up.

Mr Franz Fischler, EU agriculture commissioner since January 1995, said he would co-operate with the parliamentary investigation. He intended to publicise the Commission's campaign against BSE and current measures to ensure eradication of the disease and help the stricken beef industry.

Franz Fischler speaks at this month's Royal Show

Continental farmers share Britain's 'mad cow' gloom

Many British farmers, mired in the gloom of the BSE crisis, believe the continental beef industry is gloating over their problems and eager to seize their markets.

But, insists a French government official, "that could not be further from the truth".

"It is a disaster for the French beef industry and there are fears that many extensive beef farmers could go bankrupt."

The crisis has hit the whole of Europe and the worst repercussions may yet be to come.

France is contemplating the slaughter of 250,000 beef cattle in the autumn unless consumer confidence recovers.

In Ireland, officials say more than 250,000 animals will have to be sold into intervention stocks later this year if vital markets do not reopen.

Mr Ivan Yates, Irish agriculture minister, has been visiting Libya this week to try to persuade the country to resume imports of 100,000 live cattle a year worth I£100m which stopped after the crisis broke in March.

In Germany, consumption of beef is still 25-30 per cent below its pre-crisis levels and officials describe the situation facing the industry as "catastrophic". The government is considering measures to cut production by 10 per cent.

It is against this dire background that Mr Franz Fischler, EU farm commissioner, yesterday set out his ideas for cutting production and bringing demand and supply back into balance.

Ireland, which holds the EU presidency, will press for swift action at next week's farm council.

"We're waiting in trepidation for the autumn season," says Mr Dermot Murphy of the Irish agriculture ministry. This is when grass-fed beef cattle traditionally come to market in Ireland and France.

Prices of store cattle, ready for fattening, have dropped by nearly 20 per cent in Ireland, he said. Key markets for meat in Iran and for live animals in Libya are still closed, although Russia and Egypt are taking Irish beef.

The EU beef mountain is rapidly being rebuilt. Germany has put over 60,000 tonnes of beef into EU intervention stocks since the crisis began, France 51,000 tonnes and the UK 20,000 tonnes. So far Ireland has only 14,000 tonnes in intervention but that will change dramatically in the autumn. During the last BSE-induced slump in demand in the early 1990s it was putting 250,000 tonnes in each year.

"We have a huge problem of oversupply in the market," said Mr Murphy. "That can only mean a substantial drop in price, and that's taken place already. Something has to be done before the autumn."

The EU produces 7.5m tonnes of beef a year. But demand across the union is estimated to be about 15 per cent below pre-crisis levels. If it stays at that level, as many fear, that would leave an overhang of 1.1m tonnes, or more than 3m cattle.

Holding animals back from slaughter may not be an option because so many have been building up on farms and eating grass since the spring that hay and silage stocks for winter feed are likely to be low.

In the short-term, using intervention stores to clear unwanted mature beef animals from the market is the only solution, says Mr Murphy. "But it's a question of what kind of intervention."

Ireland is unhappy with the suggestion that intervention weights should be much lower, though Germany supports it. Irish animals come to market at heavier weights and could thus be excluded from intervention, leaving farmers with no outlets.

In France, officials say, prices for cattle are still falling steeply, nearly four months after the crisis broke. In the last week alone prices have fallen 4.6 per cent. France produces many beef animals for export to Italy and Spain for fattening. The main export season starts in August and continues through the autumn. But demand from these countries has dried up as beef sales have fallen there too.

"We don't want to kill these [excess] animals," says Mr Daniel Perrin, director of the Meat Office, which controls intervention stocks. "We are looking at alternatives, but we don't have many solutions."

One problem cited in France and Germany is that retail prices for beef have remained stable despite the huge drop in demand – still down about 20 per cent in France.

In Britain supermarkets sold beef at a heavy discount in the wake of the crisis, helping to trigger a significant recovery in demand.

In Germany, however, individual butchers dominate beef sales and it appears unlikely that they would decide *en masse* to cut prices. In France, officials say, the drop in consumer demand for offal has forced slaughterhouses to charge more for prime cuts in order to cover their fixed costs.

Alison Maitland

Rain washes out grain price surge

By Laurie Morse in Chicago

Chicago grain futures traders, who have been playing a sort of weather roulette over the past two weeks, were reeling Wednesday from the effects of heavy rains in the central Midwest.

These alleviated a prolonged dry spell in critical maize and soyabean regions, and ended speculation that a drought could damage the crops.

Maize and soyabean plants are nearing sensitive pollination stages and analysts say the rains arrived soon enough to boost yields. Stocks of both feedgrains are at critically low levels in the US, and livestock merchants and other food processors are counting on bumper harvests to renew depleted supplies.

Last week, weather forecasts for dryer-than-normal weather helped pump grain prices sharply higher.

However, revised forecasts for rain prompted a heavy wave of selling in maize and soyabean futures at the Chicago Board of Trade on Tuesday and the sell-off continued yesterday as the precipitation reached major growing regions.

At midsession yesterday CBoT maize futures for December delivery were down 12¼ cents at $3.54¼ a bushel, while contracts for spot delivery were 18 cents lower, the maximum single-day loss allowed by the exchange. Soyabean contracts experienced even larger losses, with the November delivery position off 20¼ cents at $8 a bushel.

MIM plans A$500m copper development

By Nikki Tait in Sydney

MIM Holdings, the Australian metals group, is to spend A$290m (US$230) developing a new copper mine at its Mount Isa base in Queensland, and a further A$210m on expanding the copper smelter there.

The A$500m investment will be spread over three years, with full production from the new mine – to be called the Enterprise Mine – set for end of 1999. It is the second major copper expansion announced by an Australian company this week, with WMC giving the green light to a A$1.25bn expansion of its Olympic Dam copper-uranium project in South Australia on Monday.

Like WMC, MIM indicated that the investment was being made because of the company's faith in the long-term "fundamentals" for the metal – and despite the recent turmoil in the copper price in the wake of the Sumitomo affair.

The new mine will develop the "3500" orebody at Mount Isa, in conjunction with the "3000" orebody which has been mined as the "Deep Copper Mine" since 1993. Initial annual ore production will be 3.5m tonnes, compared with the 1.5m tonnes now coming from the 3000 orebody.

MIM added that its existing principal source of copper ore at Mount Isa – the 1100 orebody – would also remain in production until the middle of the next decade, but with the new mine steadily taking over as the main production area.

The smelter expansion, meanwhile, will lift capacity from 175,000 tonnes a year to 250,000 tonnes. This increase is also designed to handle the production from the nearby Ernest Henry copper-gold mine which due to come into production late next year, as well as the expanded Mount Isa output. MIM has a 51 per cent interest in the Ernest Henry project, and is managing the development.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

[illegible]

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

[illegible]

SOFTS

■ COCOA LCE (£/tonne)

[illegible]

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

[illegible]

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

[illegible]

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

[illegible]

LONDON TRADED OPTIONS

[illegible]

LONDON SPOT MARKETS

[illegible]

FUTURES DATA

All futures data supplied by CMS.

VOLUME DATA

[illegible]

INDICES

■ REUTERS (Base: 18/9/31=100)

[illegible]

JOTTER PAD

CROSSWORD

No.9,123 Set by VIXEN

ACROSS

1 An injury is much sooner … than an insult, as Chesterfield wrote (9)
6 Cold girl, but kind (5)
9 Sack the fellow in anger (5)
10 Stay, having lots of time, in Alaska (9)
11 The doctor increased 12's gloom (10)
12 The top man wants a large number (4)
14 There's great excitement about an American songbird (7)
15 One of a dozen given a job by the French (7)
17 From Castle originally, so tolerant (7)
19 Making a hole in state funds (7)
20 Article found in church – a walking-stick (4)
22 Puts back control and comes to a standstill (10)
25 The patient 28 is taken by this (9)
26 Report causing an uproar (5)
27 In spring dry weather may bring some warmth (5)
28 A person driven to proceed with "green" conversion (9)

DOWN

1 Assembly discussing the Foreign Office over a drink (5)
2 Determined views of a judge cut short in time (9)
3 Yet again spectacles are responsible for mistakes (10)
4 A coach for the retinue accompanying royalty (7)
5 19 across when coin is a problem (7)
6 The stupid guy should be left in bed (4)
7 A quarter are sensible (5)
8 Rush – stream plant (9)
13 The ability to make sufficient to live on (10)
14 Ditch a worker, getting acrimonious (9)
16 Coming to fish after all (9)
18 Get rid of pollution and get rich! (5,2)
19 The new car sent for moves at a fair speed (7)
21 Count may be as currency no longer (5)
23 Some people are disheartened when cut (5)
24 The very best fruit (4)

Solution 9,122

[I]NWARD INVESTMENT INTO THE UK

[I]ncoming capital tide [i]ncreasing steadily

[T]he world's three [l]argest economies now [f]avour the UK as their [f]irst-choice [d]estination for foreign [e]xpansion. Michael [C]assell explains why [t]he potential remains [e]normous

[T]he roll call is impressive. Siemens, [F]ujitsu, Samsung, Montupet, LG, [H]alla and many more world-class companies, are united in choosing [t]he UK as a manufacturing base [o]ver the past year.

While not the masters of football [i]n Europe, the UK has enjoyed the [r]un of the field when it comes to [i]nward direct investment. By last [y]ear, the UK's stock of inward [d]irect investments stood at more [t]han £150bn, three times the level [r]ecorded a decade earlier.

The world's three largest economies now favour the UK as their first choice destination for foreign investment. Around 40 per cent of all inward manufacturing investment into the European Union is coming to the UK, which accounts for two-fifths of all US, Japanese and, most recently, South Korean investment. German manufacturers, too, are showing renewed enthusiasm for the UK as they discover overall labour costs running at less than half those at home.

Mr John Major, the British prime minister, hails his country as the "enterprise centre of Europe", a claim roundly dismissed by detractors who stress the continuing weaknesses in domestic productivity, innovation and investment and who ask why foreign companies have to lead the way.

Mr Michael Heseltine, Mr Major's deputy, says the volume of inward investment by hard-nosed companies who owe no favour to politicians speaks for itself. He points out that the UK has a higher ratio of inward direct investment to gross domestic product than any other leading global economy.

In the year to April 1995, the government recorded 477 new inward investment projects in the UK, directly creating nearly 50,000 jobs. The tally represented the third record year in succession, despite the competition to attract international investment capital. Sharing in the success, the government-backed Commission for New Towns sold nearly £10m worth of land and premises to inward investors during its last financial year.

After a lull in the volume of inward investment into Europe, activity has again been rising. Since 1989 the number of Japanese companies coming to Europe has been declining but last year this trend was reversed according to the Japanese External Trade Organisation.

Nearly half the Japanese companies taking part in a Jetro survey named Britain as the most attractive European base for manufacturing; once again, more Japanese companies came to Britain than to any other European country.

Not all inward projects have been entirely successful, with low profitability levels a continuing source of criticism among the Japanese. But with the accumulated value of Japanese industrial investment in the UK standing close to £20bn, there appears to be no going back.

In the eyes of the Invest in Britain Bureau (IBB), charged with overall responsibility for promoting the UK to internationally mobile investors, the potential remains enormous.

The organisation, which should have a nationwide site database operational by the autumn, claims a new national cohesion in the campaign to attract foreign investment. Even so, ministerial eyebrows have been raised by the intense and possibly counter-productive regional rivalry demonstrated during recent efforts to win the £1.7bn LG Electronics plant, which ultimately settled for Newport in south Wales.

For its part, the IBB is now concentrating its overseas promotional efforts in North America, the Far East and elsewhere in Europe. Industrial sectors singled out for special attention by the IBB include the automotive, electronic, pharmaceutical, biotechnology, medical services and financial services sectors. It is also giving high priority to ensuring that foreign investors already established in the UK – who now account for 60 per cent of all new foreign investment decisions – choose the country for any new expansion programmes.

The reasons investors choose the UK are well known. Among them are comparatively low labour rates – though these are increasingly less critical given the high-tech, capital-intensive nature of many investments – and flexible employment conditions. An open door to the rest of the EU and the comfort newcomers find in knowing that others have already chosen the UK are among other important attractions.

The impact of foreign capital investment in UK-based manufacturing has been immediate. But it also offers the prospect of much longer-term benefits that can help reshape the UK's industrial base.

The government estimates that, since 1979, more than 800,000 jobs have been created or safeguarded by foreign investment. Around half the output of overseas-owned manufacturers is exported; fewer than one-fifth of those sales would have been taken by UK companies in the absence of inward investors.

A report by PA Cambridge Economic Consultants calculates that the net effect of inward investors involves a positive contribution to UK trade of well over £700m a year.

The structural benefits for the UK's manufacturing base are harder to assess but no less important for the longer term. There is already evidence to demonstrate improved product quality and customer responsiveness among suppliers and increased product development among competitors.

The competitive pressures will only be enhanced further with decisions like those of Samsung, the south Korean electronics giant which is building a plant in the north east of England, to persuade six Korean suppliers to set up in the UK to serve its new operation.

The ultimate beneficiaries should be customers of inward investors – who can expect better quality goods and services and lower prices to help their own profitability and productivity – and end-consumers.

Ministers insist it is not a case of foreign investors performing better than UK companies, more that all internationally investing companies, irrespective of origins, tend to be better performers than those confined to a domestic market.

But the picture may not be entirely rosy. Despite some recent improvements, it is hard to sustain claims that the country can offer across-the-board employment skills equal to those anywhere else. There is a worrying skills gap which inward investors have been quick to experience and which the government knows has to be closed if the UK is to become fully competitive.

Mr Jürgen Gehrels, chief executive of Siemens's UK subsidiary, said recently that while the UK has a pool of talented graduate engineers and scientists, the skills within the broader workforce, particularly in shop floor manufacturing, needed to be improved.

Failure to do so, he warned, could represent a potential barrier to future investment in the UK by international companies. He said any belief that the way forward for Britain was as a "low-skill and therefore low-wage economy" was totally unfounded. A broader range of apprenticeship schemes was essential, he claimed.

UK ministers acknowledge there is room for improvement in skills training but claim the UK already has the most successful labour market of any country in Europe, with more people in work and fewer people unemployed than almost any other leading EU country.

The government says it will not risk this position and has set itself against the implementation of EU laws – such as a national minimum wage and a standard 48-hour working week – which it believes will blunt the UK's competitive edge.

Labour is equally adamant that UK workers are entitled to the same employment rights and conditions as other European workers and says there is no evidence that inward investors would be deterred by such improvements.

Far from believing its employment and social policies will deter investors, Labour believes its pro-EU stance will encourage even more companies to choose to locate in a United Kingdom which wears its EU membership more comfortably.

In reality, few inward investors have been seriously troubled about the present government's continuing difficulties in Europe or the rumbling uncertainties over a single currency; for the moment nothing seems likely to stop the incoming investment tide.

IN THIS SURVEY

Production editor: Roy Terry

■ **UK advantages:** by Michael Cassell

A pro-business, competitive environment

Having won the lion's share of EU inward investment, 'after sales' links in future will be vital

"Investors are flocking to our shores," says Mr Ian Lang, trade and industry secretary. He is quick to claim that the government's much-proclaimed competitiveness agenda is increasingly responsible for the UK's inward tide of manufacturing investment.

Cynics might suggest that recent improvements in UK competitiveness have been driven as much by the efforts of foreign "incomers" – invariably more profitable and more inclined to invest than their British counterparts – as by any ministerial initiative.

But the government can legitimately claim that structural changes in the UK economy over the last 15 years have helped make it a more attractive location from which to do business: the scale of inward investment by some of the world's biggest and most successful companies offers impressive testament to the benefits of setting up in Britain.

The country has for decades attracted a significant number of foreign investors, with the United States proving itself one of the longest and most faithful backers. Even in the 1970s, when the country's reputation for industrial strife reduced it to the status of the "sick man of Europe" and inflation reached well into double digits, there were strong commercial arguments for investing in an offshore European manufacturing base which provided access to an expanding economic community.

But it is in the last decade in particular that inward investment into the UK has become an economic phenomenon: whatever the politicians may claim for their role in bringing it about, in truth they, too, have been surprised at the scale of the inward migration.

The use of English as the international language of business has always been a critical factor for which even the most brazen politician has been unable to claim responsibility.

But the government may be on firmer ground in taking some credit when it suggests the UK now offers a "pro-business" environment which can compete effectively with most other EU territories.

In the earlier stages of the rush to invest in the UK, relatively low labour costs proved one of the biggest attractions, along with market access. The trend led to accusations that Britain was converting itself into a "sweatshop" economy, where cheap labour would be employed for fundamental manufacturing and assembly work.

> The US has proved to be one of Britain's most faithful backers

Employment costs in the UK remain comparatively low, reckoned to be on a par with those of South Korea; recent Treasury figures used to explain why the country is doing better than most others in Europe in creating new jobs show that for every £100 spent on wages in the UK, an employer has to add an extra £18 for non-wage costs. But in Germany the add-on costs are £32, in Spain £34 and in France £44.

The figures go some way to explain the government's resolve to reject pressure on it to implement the EU social chapter, seen by ministers as an unnecessary burden likely to damage the UK's international competitiveness.

Labour costs are not, however, as important a determinant in location decisions as they once were. Big inward investors like Siemens, the German electronics giant, is to build a £1.1bn semiconductor plant near Newcastle upon Tyne but with no more than 1,500 jobs involved the employment costs form a marginal element in such a highly capital intensive project.

The point is driven home in a new analysis of international investment. Consultants Arthur Andersen point out that it will be the development of industries in which salaries represent just 5-10 per cent of costs that provides the impetus for future corporate development in Europe.

Increasingly more important than labour costs, in the eyes of potential investors, is what the UK government describes as the "flexibility" of Britain's workforce.

Critics prefer to see it as international capital taking advantage of a labour market in which employee protection is limited and the need for jobs of any kind is paramount.

Despite some improvements, Britain's record in skills training is weak, although workers have repeatedly demonstrated their ability, given the opportunity by foreign paymasters, to retrain and provide fully competitive levels of productivity.

But significant reforms in employment law which have made strikes rare and led to single and non-union agreements have helped transform the country's record on industrial disputes. Shiftwork, part-time and overtime working is commonplace, offering investors a production regime to suit their needs.

Anxious to maintain what he sees as a vital competitive edge, Mr John Major, the British prime minister, has recently made clear his determination to resist an expected European Court of Justice ruling obliging the UK to agree to a standard 48-hour working week.

A minimum wage is also rejected by the present administration, although the Labour party is committed to its introduction even though it has not publicly fixed a figure. The party is equally determined to maintain a strategy which ensures British workers are entitled to the same employment rights and conditions as those elsewhere in Europe.

Low corporate taxation is regarded as another important priority for inward manufacturers.

The UK's mainstream corporation tax at 33 per cent – Germany's stands at 45 per cent – is the lowest of all main industrialised countries while overall taxation in the UK is below the EU average.

Another factor inevitably figuring on any investment checklist is the availability of financial incentives; with one recent potential investor reportedly offered the equivalent of £37,000 per employee to bring a plant to Wales, their provision can clearly make a difference.

But, as Britain's Invest in Britain Bureau emphasises, "financial assistance is a short-term incentive but investment is a long-term commitment." The UK accepts that it has to try and offer a package of financial help comparable with those elsewhere in Europe.

But ministers question the sense of allocating potentially huge sums to enable EU members and even regions within member states to compete for inward investment.

Britain reckons it has a few other aces up its sleeve. Ministers cite strategies for attracting a significant increase in design, research and development investment in the UK, a trend which is already well in evidence as foreign investors strike up collaboration projects with universities across the UK.

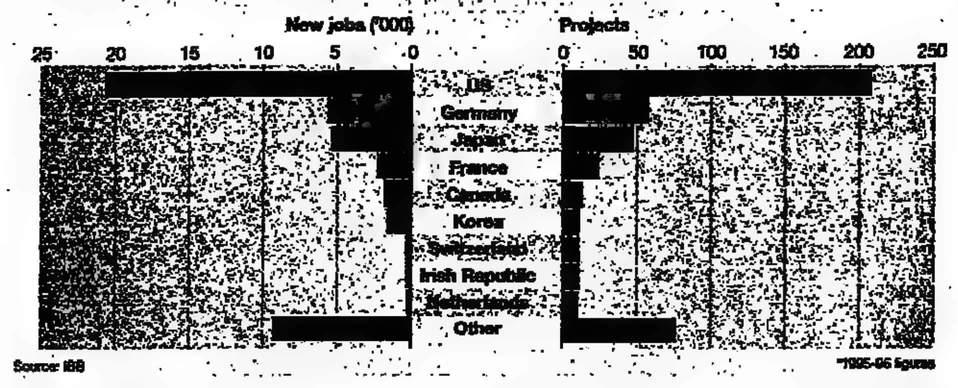
Advanced transport and telecommunications systems, together with the predominance of the City of London in international financial markets, are also advanced as good reasons for taking the UK seriously as a manufacturing location.

As for inward investors themselves, many have publicly proclaimed themselves impressed with the UK effort, at national and local level, put into attracting them to the UK.

The country's success so far in taking the lion's share of inward investment into the EU in itself offers an important bonus, granting potential investors the comfort of knowing that many others have already opted for the UK.

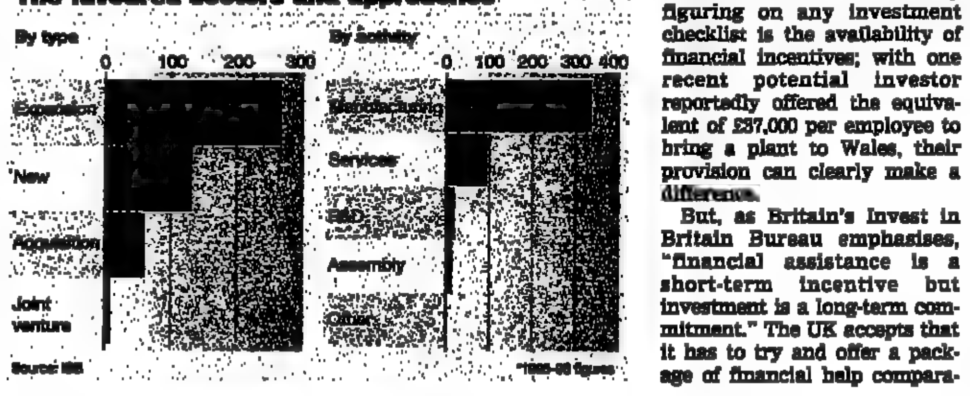
With competition for inward investment becoming tougher, the UK is placing a fresh and important emphasis on so-called "after sales", maintaining continuing links with new investors and positioning itself well if and when additional spending programmes are enacted.

Where the investment is coming from



Source: IBB
*1995-96 figures

The favoured sectors and approaches



Source: IBB
*1995-96 figures

Ian Lang: "Investors are flocking to our shores"

■ **Japanese contribution:** by Stefan Wagstyl

Fertiliser for local industry

Foreign companies play an important role by introducing new management techniques

When the first large Japanese factories opened in the UK in the early 1970s, they were regarded with some suspicion. While local people enthusiastically snapped up the jobs on offer, others muttered dire warnings about foreign-owned screwdriver plants undermining the British economy.

Such voices are almost never heard today. It is a measure of the extent to which the benefits of inward investment have spread through the economy that even those who have never been inside a Japanese-owned factory recognise the scale of the achievement.

As Mr John Bridge, chief executive of the Northern Development Company, the north's investment promotion agency, says: "Inward investors are a fertiliser for local industry."

It is becoming increasingly apparent that inward investors bring with them indirect advantages for the UK, in addition to the considerable direct gains. For the gains to the UK can be measured not only in the volume of investment, in the jobs created at foreign-owned plants and their suppliers, and in exports, but also in the intangible benefits. The most important of these is the role foreign-owned companies play in introducing new management techniques and new technology. While investors from many countries contribute to this process, the most significant influence are Japanese manufacturing groups, particularly the Japanese car makers, Toyota Motor, Nissan Motor and Honda Motor.

The big wave of Japanese investment into the UK, which gathered pace in the early years of the administrations of Mrs (now Lady) Thatcher, coincided with a great upheaval in British industrial relations. With the government urging employers and trade unions alike to abandon traditional attitudes, there was an opportunity to promote new ideas, including ideas practised by Japanese companies relating to quality, factory management, and controlling suppliers.

Moreover, Japanese inward investment coincided with and contributed to a period of rapid globalisation of industry. Companies which had been used to treating home markets as their near-exclusive preserves found themselves competing with rivals from the other side of the world.

In key sectors, including motors, electronics, and machine tools, there was a quantum leap in the level of competition. Competition forced British companies, among others, to change or face extinction. In the quest for change, Japanese inward investors offered important examples of what could be done.

The coherent pursuit of quality as a guiding principle is not uniquely Japanese. But in manufacturing, especially in mechanical and electrical engineering, Japanese companies have led the world in implementing techniques for achieving quality improvements. The starting point for these techniques is measurement – by measuring everything from raw materials coming into a factory to the finished goods leaving it, leading Japanese companies were able to identify how best to improve productivity and quality. Not every Japanese group succeeded: but those which grew large enough to invest overseas generally did.

The pursuit of quality led Japanese companies to repeatedly review the organisation of factories and of supply chains. They decided that the best way forward was in devolving responsibility to the shop floor and to supplier companies. Progress was not always easy – Japan was racked by strikes in the immediate post-war years – but eventually relations between managers and workers settled into a pattern based upon co-operation.

When it came to investing in the UK, some Japanese companies were initially wary about transferring their manufacturing methods overseas. They were concerned that their techniques could only work in Japan, where co-operation is at the heart of national culture.

John Bridge: recognises benefits of foreign companies

Claims that early Japanese plants in the UK were no more than simple assembly factories – screwdriver plants – were often correct. But as the Japanese owners grew more confident of operating in the UK, and the demand from the British and the European authorities for localisation grew stronger, so Japanese plants developed ever stronger links with the local economy.

As they did so, Japanese companies began to apply their management techniques. They found they were often pushing on an open door. There was very little that was uniquely Japanese about their ideas. British managers hired by Japanese companies were delighted to get an opportunity to try out ideas that they knew were sound but had been prevented from implementing by archaic labour relations. For example, at Nissan, the first Japanese car maker to build an integrated car plant in the UK, top managers were recruited from the British car industry, including Rover Group, which was then still a by-word for industrial inefficiency.

At the factory level, the new ideas include better training, multi-skilling, devolving responsibility to units of 10 or 20 staff, and repeated demands for measuring and improving performance.

Across the company, there is a strong emphasis on involving as many disciplines as possible in the early stages of product development. The principles are extended to managing suppliers by trying to develop long-term relationships and to involve them in product design.

Japanese companies, often makers of finished goods, made a priority of encouraging suppliers to modernise their production methods. These suppliers were then urged to pass the lessons on to their own suppliers. So the new ideas passed down the chain to second and third tier component makers, including small family-owned companies.

Competitors were forced to respond by making changes of their own, sometimes following Japanese methods, sometimes not, and occasionally introducing innovations which Japanese groups themselves had not considered.

In these ways, whole industries were modernised, notably motor cars and electronics. But the lessons also have spread to other industries. Local links have played a part. Sometimes employees of Japanese companies have left for other companies and taken the ideas with them. Sometimes college courses established with the support of a Japanese group have benefited other local businesses.

■ **Management:** by Peter Marsh

Chief problem for companies

The main issue for multinationals is who to put in charge of operations

For Keith Whitbread, events have not worked out according to plan. In 1991 Mr Whitbread, an experienced logistics manager, took over as head of the newly-formed UK division of New Wave Logistics, a large Japanese-owned distribution company setting up in Europe.

To start with, Mr Whitbread was given virtually a free hand by his company, which is part of the giant NYK shipping business. It seemed as through New Wave, which also has logistics operations in Belgium and Italy, was happy to let Whitbread operate in his own style in the UK, using his own knowledge of the British distribution business and his good track record in a similar job at Federal Express, the US parcels service.

His division appeared successful, building a new £15m warehouse in Milton Keynes complete with the latest computer controls for tracking goods entering Britain from companies such as Pioneer, Sanyo and Casio. The warehouse employs about 100 people and has a throughput of goods worth about £1bn a year.

Then a few months ago, apparently after an internal row with his Japanese bosses, Mr Whitbread was forced to leave New Wave and is now looking for another job.

The events at New Wave underscore the problems that can occur when multinationals setting up in the UK tackle the number one management issue – who to put in charge. The choice often comes down to selecting someone who is ingrained in the inward-investing company's culture, but is unfamiliar with the UK, or plumping for an outsider who has run similar enterprises in the UK.

A range of other possible management headaches crop up for multinationals in establishing themselves in a country such as the UK – many of them to do with how to run the business according to a global set of objectives, yet at the same time have sufficient flexibility to react to local issues over such factors as pay and working conditions.

There is no evidence that Japanese companies in the UK are any more or less susceptible to difficulties of this kind than those of any other nation. However, the wave of investments in the UK in the past 10 years by subsidiaries of big Japanese companies have inevitably led to a number of experiences of discord between managers at the subsidiaries and head offices.

Some of these problems can possibly be ascribed to cultural differences between the British and Japanese way of running businesses. In the case of Mr Whitbread, New Wave insists the departure was "amicable" and that he "left to pursue another direction to his career". However, an insider said Mr Whitbread fell out of favour with his superiors, "and he found that if you fall out with the Japanese then you're dead".

Sumantra Ghoshal, a professor in strategic leadership at London Business School, cautions against "too much accent on cultural issues" when examining multinational management strategies. "The concepts here are fuzzy; what some people may put down to cultural difficulties is often a simple problem of lousy management," said Mr Ghoshal.

But a detailed study last year by Keith Jones, then general manager of a British subsidiary of Nippondenso, Japan's biggest car components company, threw light on a host of management difficulties linked to cultural issues in the UK arms of Japanese companies.

A range of differences between the average Japanese and British manager – in areas such as attitudes to promotion, ways of communicating, and parcelling out of tasks to subordinates – can easily lead to conflicts, according to Mr Jones, who at the time was working for Telford-based NDM Manufacturing, a company three quarters owned by Nippondenso and 25 per cent by Magneti Marelli of Italy.

In his thesis for a masters degree, Mr Jones, who has since left to work in Germany for Lear, a big US car seats manufacturer, also bemoaned the fact that not enough Japanese companies in the UK employed a UK executive in the top job.

Not all stories of multinationals switching managers around in the UK, sometimes with difficult consequences for the people concerned, involve Japanese businesses. Earlier this year, Black & Decker, the big US consumer products and tool company, installed Bob Schwarz, an American, as head of manufacturing at its three main European plants, of which one is in Spennymoor, Durham.

The job, created after Black & Decker reviewed its global manufacturing operations, had not previously existed. Inevitably it led to a clash with Bob Bowlam, the company's highly regarded UK technology director, whose role had involved a large responsibility for production strategy at Spennymoor. In the resulting changes, Mr Bowlam left the company.

Management control in some UK divisions of Japanese companies often appear, to the outsider at least, extremely smooth. Mr Keith Tipping, a British manager, has been in charge of the UK factory of Komatsu, the Japanese excavator company, since 1994 and is said by his company to enjoy considerable autonomy. Sony, which has had a UK manufacturing presence since 1973, has had several British managing directors, the present incumbent being David Pearson.

> 'Cultural differences may often be simply lousy management'

But in another Nippondenso subsidiary in the UK – Shipley-based ND Marston, which makes automotive radiators and in which again Magneti Marelli has a 25 per cent stake – the nationality of the chief executive recently became an issue.

Nippondenso (which in October is changing its name to Denso to reduce the accent on Japan and reflect its global ambitions), in February installed in the top job in Shipley Koichi Sato, an experienced executive from the company's Japanese operations.

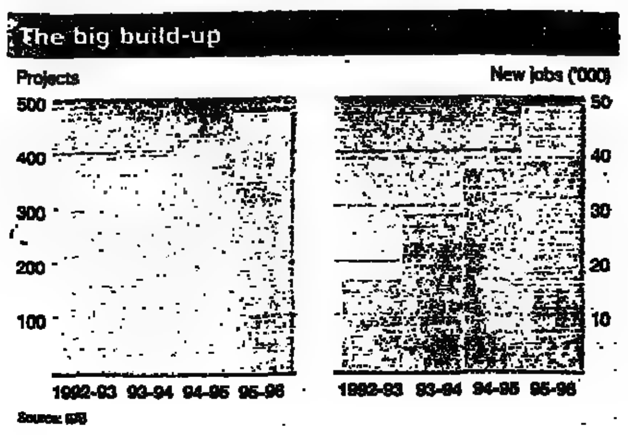
He took over at ND, which from next month is to be called Denso Marston, after a two-year stint by another Japanese, Mr Katsumi "Keith" Susuki. Mr Susuki had in 1994 replaced a British chief, Mr Elfed Lewis, who had been in charge for five years.

Nippondenso resisted the temptation to bring in a British top manager, even though this would probably have been welcomed by the workforce and reinforced its credentials as a UK-based company. Its reason was that it wanted a tough, tried and tested top man to restore the subsidiary's profitability. The radiator company has seen a strong growth in sales, which in 1994 reached some £50m, but since 1992 has made a loss.

Another leadership issue arose a few months ago for the UK subsidiary of Epson, the big Japanese printer company, when it replaced its UK chief executive, Mr Yorimasa Yuguchi, with Mr Masa-Aki Hamamoto, its European president, who will continue with that role while running the UK operations.

Someone familiar with Epson said: "Mr Yuguchi had been paddling his own canoe. He was too independent and did things the British way. Epson didn't like it." Epson said it did not want to comment on the affair beyond a statement which said Mr Yuguchi's five-year spell in the UK had been "very successful" and that his achievements were "considerable".

The big build-up



Source: IBB

■ **Promotion:** by Michael Cassell

UK has finally got its act together

Attracting overseas manufacturers is a priority, but regional rivalries could interfere

Few people doubt the benefits to the regional and national economy of attracting inward investment, bringing with it new jobs, income, skills, technologies and practices.

But the UK's success in attracting foreign manufacturers has also become a source of controversy at local level. Though anxious to play their part in bringing new economic activity into their areas, some local authorities are questioning whether too much time and money is being spent on recruiting overseas companies and not enough on supporting and developing indigenous business.

A recent report from the independent policy commission set up by the Labour party to examine strategies for regional economic development emphasised that inward investment is not a panacea for economic regeneration in the regions.

It pointed out that Leicester TEC, for example, believed only 5 to 10 per cent of new jobs in its area would in future come from inward investment, with the expansion of existing businesses providing almost all the balance.

The report said the clear message was that promoting inward investment by overseas companies should be additional to, not a substitute for, promoting indigenous investment. It echoed fears that too much reliance on inward investment meant the UK regions would merely become "branch plant" economies adding little to the UK macroeconomy and over which government and regional authorities would have little influence and control.

Another report published earlier this year by accountants Ernst & Young called on local authorities to reappraise their inward investment efforts, which were often spread too thinly and ineffectively. While not decrying the potential benefits of this type of investment it also pointed out that it was "often easier and less costly to retain an existing company than attract a first-time investor".

The need to strike a sensible balance is widely accepted and, in many cases, the reality is that resources for encouraging economic regeneration of any sort are extremely limited.

But whatever the fears about local economies falling into the hands of international paymasters, the effort to bring overseas manufacturers to the UK now attracts the highest political priority at national level.

After years during which the national campaign to market the country as a prime manufacturing base was acknowledged to be poorly resourced and badly orchestrated, the UK now seems to have got its act together.

A jigsaw of effective local partnership between a wide range of economic development organisations, led at national level by the Invest in Britain Bureau, is almost complete and beginning to pay dividends, according to Mr Andrew Fraser, IBB chief executive.

Co-operation is promoted via the IBB – primarily charged with marketing the UK abroad – through Locate in Scotland, the Welsh Development Agency, the Industrial Development Board for Northern Ireland and, in England, through the regional development organisations. The IBB currently has an annual budget of £10.5m, accounted for by promotional activity and by funds for distribution in grants.

The RDOs, which choreograph locally the efforts of TECs, universities, science parks, local authorities and English Partnerships, each cover areas accounting for between 5 and 10 per cent of gross domestic product. "They provide the economic building blocks on which we build a countrywide effort; together all these bodies can achieve a cohesion which allows the regions to punch above their weight," Mr Fraser adds.

Some regions have unquestionably woken up earlier than others to the potential economic rewards of winning foreign investment. Organisations like the Northern Development Company, the regeneration body for north-east England and Cumbria, and Northern Ireland's Industrial Development Board have proved themselves extremely effective while some other regions have been slow to marshal resources.

The east and south-east, in particular, appear to have been less well organised in exploiting the potential of inward investment, although it is fair to stress that they were competing against regions which could offer the added advantage of grant aid.

As an early beneficiary of the original wave of inward manufacturing investment, parts of the south ignored the potential competition from other regions and have only now been stung into action by the spectacular successes notched up elsewhere in the UK.

No one is complacent enough to suggest the entire national effort cannot be improved. Ernst & Young pointed out in its report that many local authorities were severely hampered by a lack of understanding of the inward investment market; it said some authorities were undertaking promotional activities which only had a limited impact.

The report also found that most local authorities viewed their neighbouring regions as their principal competitors for inward investment, highlighting a regional competitiveness which is understandable but not necessarily always helpful.

The IBB recognises that there will always be rivalries and tensions between the regions and the bodies charged with attracting new investment and it is anxious to ensure that these do not undermine the national effort. "The biggest problem is when cities or areas rush off to try and do their own thing," says Mr Fraser.

Andrew Fraser: regional rivalry must be managed carefully

He adds: "We are going to have to manage the process of regional rivalry very carefully but we are evolving a system in which national and local government are working more closely together, giving us a priceless advantage."

Mr Jonathan French, economic development officer for North Yorkshire, is not alone in suggesting that regional rivalry for new investment is a positive force, ensuring local organisations stay on their toes and making potential newcomers fully aware of all the opportunities available. But he believes there is still room for better co-ordination when it comes to promoting the UK overseas.

The IBB is in the process of strengthening its overseas marketing effort and is keen to see its national team win a higher profile both abroad and around the UK.

■ **North east:** by Chris Tighe

Partnership proves its worth

Inward investment into the north east during the past decade has created 39,580 jobs

Ten years ago today, the Northern Development Company was officially born.

The NDC's formation, after two years of bridge-building between competing interest groups and organisations, was of crucial importance in fostering the "partnership" philosophy which has since been so vital to north-east England's success in attracting inward investment.

In the early 1980s, as the north east and Cumbria struggled with the decline of traditional heavy industries, many in the region wanted a generously funded development agency on Scottish lines – an aspiration which the renewed debate on devolution has again fanned.

But the NDC, while run on a modest budget, delivered something money alone could not buy – a consensus between the private sector, the trade unions and the local authorities that they would work together for the good of the region to win inward investment.

Inevitably, there have sometimes been strains but the demonstrable success of the partnership approach in securing foreign direct investment has continued to focus participants' minds.

The north east, with important investments by Nissan, Fujitsu, Samsung and dozens of other Far East companies, now claims to be the principal European centre for manufacturing investment from the Asia-Pacific area. While the northern region accounts for about 5 per cent of UK GDP, it has received over the last decade more than 10 per cent of all foreign direct investment coming into the UK.

The NDC says inward investment into the area since 1985 has created 39,580 jobs – this figure includes forecasts of future jobs – and safeguarded another 25,059. Inward investment spending, including future commitments, totals £7.4bn.

The latest Regional Trends Survey showed that by 1993 the north east and Cumbria had the second highest level in the UK regions of gross value added per employee in manufacturing. At £30,474, it was bettered only by the south-east.

And new government figures on manufacturing productivity show the north east top of all UK regions in 1994 in value added per employee.

Inward investors contributed directly, through their own plants, and, indirectly, through their impact on the supply chain and their influence on indigenous companies.

Inward investment, says NDC chief executive Mr John Bridge, has revolutionised the north's industrial base. "It's not a bolt on," he says. "Ministers must understand it's a highly integrated part of the UK economy."

The north east, which has captured nearly all the last decade's inward investment into the northern region, now faces a new challenge – large site availability. While it still has high quality greenfield sites, the availability of very large sites, with a high level of utility services readily on hand, is another matter. "We are running out of sites if you look at 200 acres and above," says Mr Bridge.

The NDC's most recent board meeting agreed that an action team be formed, comprising representatives from NDC, the government office for the north east, the government-backed regeneration body English Partnerships and each of the area's local authorities, to address this problem.

The team's purpose will be to identify several prime 200-acre sites – possibly straddling local authority boundaries – and ensure they have the utility infrastructure necessary to attract prestige inward investors. This objective will again test the partnership approach, since it needs co-operation from those who will not have one of the chosen sites on their patch.

"We have to really concentrate our minds," says Mr Bridge. "What we need to come out of this are two or three sites in the region which are our deluxe portfolio."

The less publicised business of winning reinvestment by those already in the region is a key NDC area of activity. In 1995/96, of the 10,420 new and safeguarded jobs NDC attributes to inward investment from overseas, 40 per cent came from 42 expansion projects, with a capital spend of £1.3bn.

Reinvestment's importance was highlighted by Fujitsu's decision to delay the planned expansion of its County Durham semiconductor plant because of the present downturn in the global microchip market. At £816m this expansion is bigger than most new inward investment projects.

Another recent announcement underlined NDC chairman Sir George Russell's maxim, "Our expansion is somebody else's inward investment". South Shields-based printed circuit board maker, Interconnection Systems Ltd (ISL), a homegrown high technology company, announced it had chosen north Tyneside for a new £120m, 1,000-job plant. Central Scotland and Spain had also been contenders. To see an indigenous success story slip away would have been mortifying for the north east.

The choice of north Tyneside last year by Siemens for a semiconductor plant, now under construction, has, Mr Bridge believes, given the region, which already had Fujitsu, a critical mass in semiconductors. Although this will not create a Nissan-style cluster of component plants, he hopes it will stimulate some specialist supplier investment and provide more work, possibly for indigenous companies, in sophisticated maintenance activities.

As Samsung has chosen Teesside for its new European electronics manufacturing complex, there are strong hopes this will also in time be its chosen site for European semiconductor manufacture.

However, with two semiconductor plants already and the prospect of a third, the region may find it more difficult to attract other microchip manufacturers; companies may not wish to locate near competitors, partly because of skills availability, and UK politicians will be keen to see prestigious inward investment widely distributed. Significantly, LG's big new semiconductor and electronics project has gone to Wales.

Raising skills levels and ensuring availability of suitable recruits is a key challenge for the north east. For all its inward investment success, it still has Britain's highest regional unemployment rate. Educational aspirations remain lowest in those areas where employment is most needed.

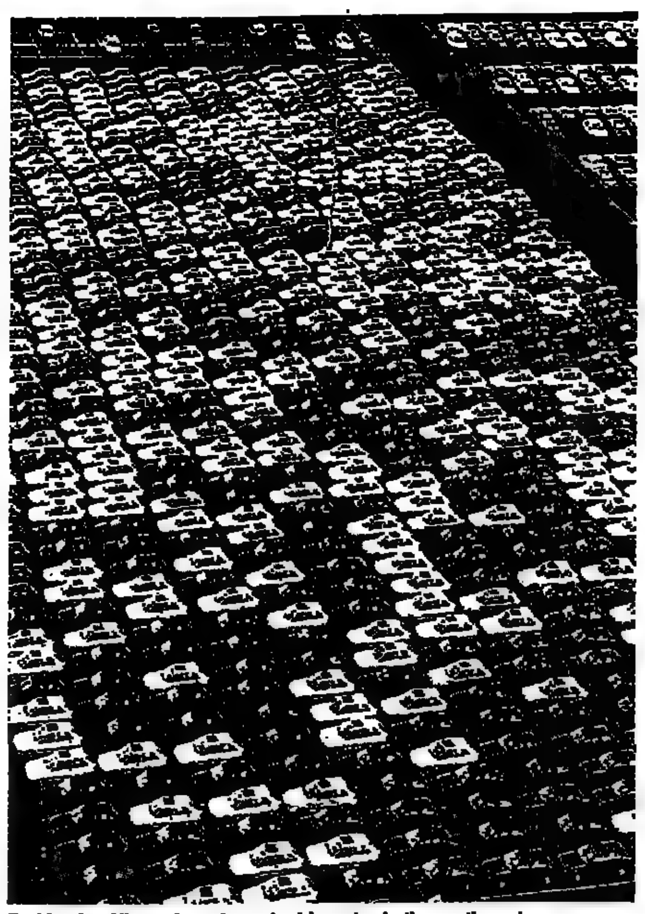
As well as working to attract more inward investors – mobile telephone manufacturers are a target – NDC is trying to ensure through its supply chain programme that indigenous companies capitalise on the spin-off business potential of inward investors.

In January 1995, it set a two-year target of establishing 50 supply chain projects involving large companies, mostly inward investors, in the region. It has so far set up 58, which by March 1996 had brought indigenous companies contracts worth £35m.

Overseas investment in the north of England 1985-95

	Projects	New jobs	Safe jobs	Total jobs	£m
1985	35	1,867	2,272	4,139	96.53
1986	28	3,698	1,236	4,934	338.435
1987	29	2,857	784	3,641	303.382
1988	30	3,351	31	3,382	96.61
1989	45	4,433	1,354	5,787	526.035
1990	51	2,853	1,470	4,323	416.283
1991	40	2,302	2,595	4,897	677.406
1992	39	2,981	2,516	5,497	548.85
1993	43	2,138	3,372	5,500	147.052
1994	56	6,113	5,791	11,904	1,006.17
1995	57	5,674	2,932	8,606	3,018.12
TOTAL	461	35,257	24,353	62,610	7,174.873

Source: Northern Development Company



Parking lot: Nissan is an important investor in the north east

CASE STUDY **LG Electronics**

Northern expansion

Few projects better illustrate the regional importance of reinvestment – and the wider considerations which influence it – than LG Electronics's new plant in Washington, Tyne and Wear.

A £28m development on a 15-acre greenfield, with the capacity to produce more than 1m microwaves and 700,000 televisions a year, it has superseded a much more modest operation in a former kitchen fittings factory on a South Shields industrial estate.

In 1988, in the face of anti-dumping regulations, Korean-owned LG needed to start producing microwaves in Europe.

It bought the Washington site from the Commission for the New Towns, but leased the South Shields factory to start production quickly. Staffed by 60-70 people, it produced 100,000 microwaves a year.

In 1994, as LG Electronics developed its globalisation policy, it reviewed its European market strategy.

Despite owning the Washington land, development there was not automatic, says Mr Ray Couch, general manager, resources, LG's most senior and long-standing UK employee in the region.

"We were in competition with other locations," Mr Couch says. These included Ireland, France and Spain.

Mr Couch says he likes to think the South Shields' plant's good performance and the local workforce's flexible approach tipped the balance. "It wasn't just the financial assistance, although that's an element."

Support from NDC and other economic development bodies in the area – all keen to encourage reinvestment by existing inward investors – was also very helpful to the region's case.

Opened in May 1995, the plant now employs 525 people. It has some senior Korean managers but, says Mr Couch, LG is actively pursuing localisation of personnel as well as suppliers.

LG Electronics also has a fridge-making plant in Milan and a video cassette recorder factory in Worms, Germany, but Washington is its main European plant.

There was some regret in the north east when LG chose south Wales for its new electronics complex but Mr Couch is resolutely upbeat.

There was insufficient land beside the Washington plant for the new project; LG did not want to locate very near Korean rival Samsung in Teesside and decided against a proposed Northumberland site.

Jo Chexal, the NDC's director of international marketing, says there was bound to be some disappointment over this in view of the region's previous Korean successes. But as she points out; "You can't expect to have every Korean investment."

Chris Tighe

■ **London and the south east:** by Michael Cassell

Top European location for business

Vision, investment and government support are needed to back the capital's role

London has developed over many decades into one of the international business community's favourite locations, with one in four of Europe's biggest 500 businesses by market capitalisation based in the capital.

Repeatedly voted the best European location for business, London accounts for 15 per cent of UK gross domestic product and boasts an impressive list of credentials helping to make it one of the world's biggest commercial, banking and financial centres.

The City of London is home to the world's largest centre for the trading of international securities. It leads the global foreign exchange market ahead of New York and Tokyo, dominates the eurobond market and remains the world leader in marine and aviation insurance.

So far so good. But there are those who believe that a dangerous complacency has developed, endangering London's international position and threatening to undermine one of the pillars upon which the UK economy is built.

There is general recognition that efforts to promote the capital, without a city-wide authority for the last ten years, have been weak and poorly co-ordinated. A recent study commissioned by the government compared the capital's standing in four sectors – financial and business services, tourism, creative and cultural industries and "power and influence" – against those in New York, Paris and Tokyo.

Its verdict was that, in most respects, London remained top of the class but that urgent work would be needed to ensure its position was maintained if it was to remain a world city in 50 years' time.

The study criticised the government for not taking London's potential seriously and concluded that "long-term vision and investment" would be needed if the capital was to exploit fully its position.

The doubts have been echoed in the City, where the promotion panel set up last year by the Treasury to promote the entire range of UK financial services overseas has repeatedly come under fire for failing to make progress.

But there are now grounds for optimism with the emergence of a newly developing partnership between government and the private sector intended to formulate and implement a co-ordinated strategy for London.

Financial help is at hand in the shape of regional selective assistance, available as a result of the designation for the first time of three areas of the capital – Lee Valley, Park Royal and Thames Gateway. Between them, these areas offer a wide choice of development sites for manufacturers and service industries.

An important element in the strategy for economic regeneration is the attraction of inward investors, a task which falls primarily to the London First Centre, a body with the status of a government regional development organisation and charged with securing overseas investment for all 33 London boroughs, including the City of London, Westminster and Docklands.

London First Centre is working alongside several other promotional organisations in the capital, notably London Pride Partnership, the body which brings together business organisations, local government, police and voluntary organisations to consider economic action plans for greater London. Also active is the Joint London Advisory Panel, which brings London Pride Partnership and central government together under Mr John Gummer, environment secretary and minister for London.

According to Mr John Cox, who has just stepped down as chief executive of London First Centre: "Although London was regarded worldwide as a leading city, there was evidence it was sitting back while other centres were promoting themselves actively to companies."

"We cannot afford to underestimate the level of competition facing us from emerging cities such as Berlin. London will lose out if it does not compete and compete very effectively."

London First Centre – with an annual £3m budget jointly funded by local and national government and the private sector – handles inquiries involving manufacturing and headquarters operations. It reports that many potential investors are venturing overseas to access niche markets but their investment is often very small.

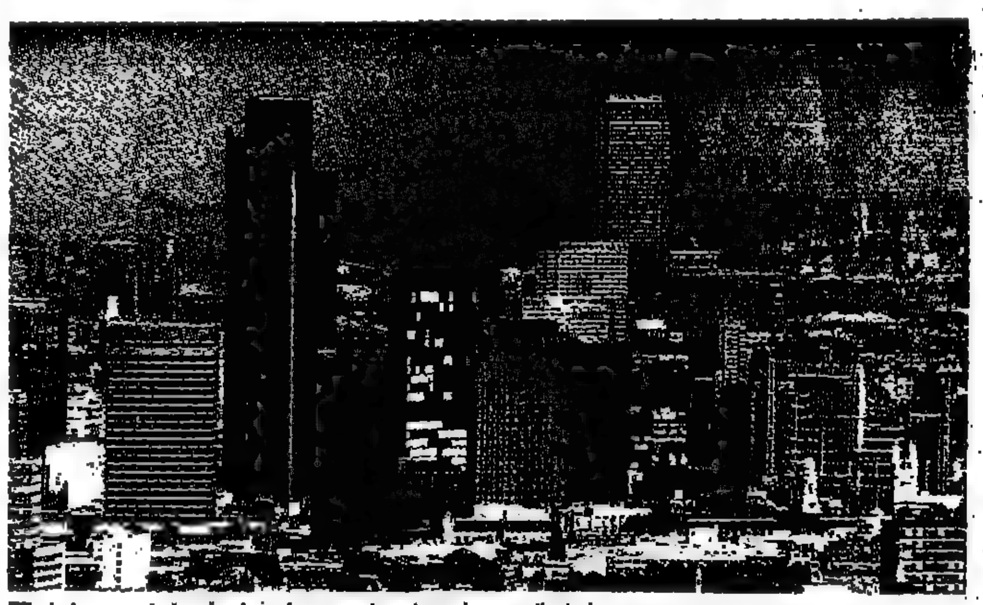
It appears that even large international businesses coming to London for the first time are cautious about the scale of their start-up, resulting in so-called "toe-dipping" – not committing large resources until the market is proven.

The organisation believes one key to success lies in giving special emphasis to well-defined sectors, such as health-care and film production. Initiatives in these areas, under separately established organisations, are under way.

Mr Cox stresses that London should not be seen as competing with the regions for inward investors, rather that a stronger economy for the capital means a stronger national economy.

His view is shared by Lord Sheppard, chairman of London First, the private sector body formed to help fill the strategic vacuum left after the abolition of the Greater London Council and which now shares a chief executive with London First Centre.

Lord Sheppard acknowledges the existence of "regional jealousy" and says London should help build a partnership with other parts of the country. He cites the decision by Samsung – the South Korean electronics group with manufacturing plant in the north-east – to move its European headquarters to London as a welcome example of "dual investment" which will be of benefit to the whole country.



Efforts to promote London have been weak and poorly co-ordinated

He adds: "London has a responsibility to the rest of the country to be a leading world city. At the same time, the regions must both recognise and support London and resist the temptation to knock the capital. Remember, we are not competitors – the rivals for success are Paris, Brussels, Frankfurt and further afield."

Despite the new sense of urgency and co-operation behind the latest efforts to promote London overseas, there remain familiar complaints about a scale of resources which compares badly with those available to some of the UK capital's other competitors.

There is also criticism that responsibility for selling London and helping its economic regeneration is still split between too many organisations. Calls for a directly elected authority for the capital have been growing and London First itself has agreed in principle to back the concept of a "governor" for London with powers similar to those recently proposed by the Labour party.

A draft policy paper highlights the lack of "a strong and effective" voice to champion London and make its case with government and abroad.

هكذا من الأصل

Northern
xpansion

■ **North west:** by Ian Hamilton Fazey

Becoming a best-seller

EU special funds for Merseyside will bring three large sites into use over the next few years

North-west England has been selling itself increasingly well to the world in the past 10 years, in spite of not always being successful when competing for investors and jobs. Inward, the agency for the region backed by the Invest in Britain Bureau, has the data to prove it.

Inward claimed three successes during its foundation year of 1985-86, then took nearly four years to pass a cumulative total of 50. But it achieved its century within the following two years and had more than doubled this three years later. The year just ended saw 31 new projects to bring the 11-year total to 243.

With only half a dozen north-west projects creating more than 300 jobs initially, they have not had the sort of publicity associated with the arrival of Nissan, Fujitsu, Samsung and Siemens in north-east England during the same 11-year period.

The north west has not won big projects mainly because it is short of the large sites of 200 acres or more needed for them. However, the cumulative effect of the 343 suggests the region is nevertheless one of the UK's most successful in attracting inward investment. They brought with them direct capital spending worth nearly £584m and have directly created more than 16,384 jobs, bringing at least a similar number in their wake through associated economic activity.

The year ended March 31 was particularly productive, with 31 new inward investments – or expansions by foreign companies already there. Direct capital investment was more than £117m, or 20 per cent of the 11-year total, and the 4,244 direct jobs comprised nearly 26 per cent of those created by inward investors since 1985.

Why this success? The region's political and business leaders collectively believe it offers six attractive benefits other regions struggle to match:

■ Critical mass. Economically speaking, the region is the largest outside London and the south-east, including Scotland, accounting for more than 10 per cent of UK gross domestic product. It houses about 7m people – 2.5m of them in Greater Manchester and 1.3m on Merseyside – and has developed a complete range of financial and professional services for industry and commerce in the last eight years.

■ Infrastructure. The north west has the most complete network of interconnected motorways in the UK and more of them than anywhere else. Critically, the M6 and M62 – two of the UK's principal north-south and east-west routes – cross at Warrington, a few miles from the "driving-time centre" of Britain, the Cheshire town of Knutsford, where 97 per cent of the population of England, Scotland and Wales is within a 200-mile radius.

■ Manchester Airport, which is five miles from Knutsford, and has more than 20m people living within two hours' drive. The airport has more than trebled in size since 1985 and handles around 15m passengers a year. This volume has enabled it to develop comprehensive scheduled services to the US, throughout Europe, and to the Middle East and Asian-Pacific markets.

Nearly all inward investors, particularly from the US, cite the airport as a principal reason for choosing north-west England.

■ Skilled labour. In spite of skill shortages common throughout the UK, the region still has a plentiful supply of trainable talent. There are four large universities in Greater Manchester, two on Merseyside and two in Lancashire, plus Manchester Business School – a postgraduate college.

■ A large expatriate community. There are about 1,400 foreign-owned companies in the north west, including about 500 from the US. Inward says this helps attract others from the countries concerned. There have been more than 70 new US investments since 1985, with 25 from Japan and more than 20 from Germany, with these three countries accounting for at least 7,500 new jobs.

■ Grants. These are not crucial with most US executives, who see them as marginal compared with long-term market considerations, but they can be important for some Japanese inward investors faced with good offers to locate elsewhere in Europe. The north west's best grants are on Merseyside, which is in the middle of spending £630m from the EU over six years to bring its local economy up to average European levels of output and productivity.

All of this means north-west England has done well in attracting foreign investors in spite of Inward's not being supported financially by all local councils, as is its north-east counterpart, the Northern Development Company. Some councils run their own promotional programmes and support Inward, but some take the benefits of Inward's central role without contributing.

These additional voices clamouring for attention include successful agencies such as the Wirral Investment Network, which acts for the attractive peninsula between the Mersey and the Dee, St Helens First, which is capably exploiting a new link road between the Merseyside town and the motorway network, and Lancashire Enterprises, the Preston-based, privatised economic development arm of Lancashire county council.

Critical work has also been done by the government-backed development corporations for Trafford Park in Greater Manchester and for Merseyside.

The EU's special funds for Merseyside will bring three important large sites into use over the next few years – the old Liverpool Airport, abandoned when the airport moved to a better site and modern buildings in the 1980s, parts of the Cammell Laird shipyard in Birkenhead, and Parkside colliery in St Helens, which is on the M6 motorway and only two miles from the M62.

Inward investment in the north-west 1985

	Projects	Jobs	Capital investment (£m)
1985-86	3	106	12.75
1986-87	12	511	66.66
1987-88	14	726	17.25
1988-89	15	576	38.04
1989-90	13	1,013	22.01
1990-91	23	1,070	39.17
1991-92	30	1,207	37.41
1992-93	35	2,551	42.96
1993-94	35	2,893	106.85
1994-95	31	1,487	93.36
1995-96	31	4,244	117.35
TOTAL	246	16,384	583.72

Source: Inward

Second Severn crossing: eases the flow of traffic to and from Wales

■ **Wales:** by Roland Adburgham

Springboard into Europe

The new Severn bridge should lessen the perception that Wales is remote

If confirmation were needed of Wales's claim to be a springboard into Europe for international companies, that is provided by this month's decision by LG, the South Korean industrial group, to invest £1.7bn there.

LG's project is being hailed as Europe's biggest inward investment deal yet. Its electronics factory and semiconductor plant, to be sited together at Newport in south-east Wales, promise 6,100 jobs and at least as many among supply and support companies.

Wales, in securing the project after tough competition with other regions, can state that LG's reasons for choosing the Celtic country as its European base are a summary of its advantages.

First, LG could be offered a large, 250-acre site next to a motorway. This site is within a few miles of the second Severn bridge opened last month. The crossing, which links the west of England with south Wales, minimises the delays which traffic experienced on the congested first bridge, and lessens the perception that Wales is remote from London and continental Europe.

Second, the Welsh could offer a package of aid – valued at up to £200m – in the form of regional selective assistance, the free provision of the fully-serviced site, and training of employees. There will also be an "after care" programme and help with the sourcing of components.

In organising this support, an important factor is the so-called "Team Wales" approach, led by the Welsh Development Agency in conjunction with the Welsh Office, local authorities, training and enterprise councils.

Another selling point for Wales is that wage costs are relatively low (although international companies pay above average) and labour relations are generally good. LG stressed that the Welsh workforce was "well known for their commitment and productivity".

Other advantages are not unique – such as the English language. But foreign direct investment in Wales (more than 350 overseas companies are based there) has helped to foster an international outlook. Wales increasingly sees itself as a region of Europe, as well as a region of the UK (even if public opinion is divided over the merits of the Labour party's plans for devolution).

Despite the merits of the Welsh "offer" to overseas companies, in recent years its share of foreign direct investment slipped. But even before the LG announcement, there was evidence that the WDA, after a reorganisation, was back on track.

There have been significant recent projects. Halla, the first Korean company to come to Wales, is setting up a £17m plant to make earth-moving equipment. A Japanese-German joint venture, Ocean Technical Glass, is in progress at Cardiff Bay. Newport Wafer-Fab, the subsidiary of Hong Kong-based QPL, is building a second semiconductor plant.

Mr James Turner, managing director of the WDA's international division, points out that, although the global market for inward investment has returned to a growth phase, the market place has changed. Developing countries are taking a greater share and, at the same time, there has been an "explosion" in the number of development agencies across the European continent.

"The international investor is faced with a huge amount of choice – it is a buyer's market," he says. "The market has become more competitive and more complex. To respond to that, one raises one's game plan and becomes even more professional, and that is certainly something we've done at the WDA."

That plan, he suggests, hinges upon "the ability to demonstrate to businesses that we can provide a solution to their needs, and to focus very specifically on particular companies in particular sectors.

"We do not set out to present to companies the 10 best reasons to come to Wales, but to take their needs and present them with a solution – albeit a Welsh solution. What distinguishes the men from the boys is the whole question of deliverability – it is a case of translating promises into concrete action."

The WDA attaches growing importance to "after care". "One mustn't assume that just because a company has come to Wales it is there for life – it is important to look after it," Mr Turner says. "The best advantage we have in attracting new business is the ability to demonstrate that existing investors are succeeding here and growing."

Sectors in which Wales is successful include automotive components, electronics, food processing and aerospace. But there is a recognition that an up-skilled labour force is needed if Wales is to lure more technology-based and research operations.

Other regions, particularly after the LG announcement, criticise the amount of government aid which Wales can offer. Mr Turner acknowledges: "The ability to put together a structured financial package is a vital and integral part of the total package. But finance is only one element in the decision a company will make. A company seeking to maximise tax breaks or subsidies is not the type of business that is likely to be happy in Wales."

PROFILE Photronics

Geography the crucial factor

The latest US company to invade north-west England did so because of geography. The site for its new factory is 20 minutes from Manchester airport and within two miles of the nearest motorway. For Photronics, these were crucial considerations.

The company is the leading US manufacturer of photomasks, a crucial element in making semiconductor chips. They are high-precision quartz plates containing microscopic images of electronic circuits and are used to etch circuit patterns into semiconductor wafers.

Why geography was crucial to Photronics is explained by Mr Michael Yomazzo, the chief executive: "The semiconductor business is a global one where our customers use just-in-time principles and want their photomasks at 24 hours' notice," he says. "The European market grew by 45 per cent last year. We could not service it satisfactorily from the US."

There was strong competition throughout the EU for the project, with the New York office of the Invest in Britain Bureau handling the UK's initial contacts. The investment is part of Photronics's aim to break out of a domestic market which – although it yielded record sales and profits of $125.3m and $18.6m respectively last year from plants in California, Colorado, Connecticut and Texas – was too confined to allow it to take on its main global competitor, Du Pont, as effectively as it wished.

The result will be a £47m development in Trafford Park, Greater Manchester, which Photronics will make its base for expansion in European markets in a bid to improve on the 10 per cent world market share which already makes it the world's largest photomasks manufacturer.

"With this, a purchase in Switzerland, and new plants in Singapore and South Korea, we are going global," says Mr Constantine "Deno" Macricostas, the company's chairman. "We chose Trafford Park because of its excellent strategic location near Manchester airport and on the UK national motorway network."

As part of the deal, Photronics has bought the photomasking business of GEC-Plessey. The 34,000 sq ft Trafford Park factory will create about 270 jobs, with another 33 transferring from GEC-Plessey's plant at Oldham. The £47m included the purchase figure, which has not been disclosed.

Attracting the business to the UK was thought important enough for it to be given grants from the government, Manchester Training and Enterprise Council and Trafford Park Development Corporation totalling £3m. Moreover, the corporation razed 20 small industrial units – built less than 10 years ago – to create a pleasant, two-acre waterside site for the new factory in Manchester's docklands.

Many will see this high-tech, high-profile development, therefore, as symbolic of the regeneration of Trafford Park, Europe's first industrial estate.

Ian Hamilton Fazey

CASE STUDY Traltec UK

Expanding opportunities

One Japanese company in Wales began expanding almost the moment it arrived. In January, it announced a £5m project expected to create 45 jobs. Last month, it announced it was increasing its investment to £7.5m and would need a larger factory and more employees.

The company, Traltec UK, is a subsidiary of Shimizu Industry and is the first Japanese manufacturer to set up in mid Wales. It makes plastic products, principally for the automotive industry, with one of its main customers being Nippon Denso's components plant at Telford, Shropshire.

At the start of the year, Traltec made a temporary move into a 13,000 sq ft factory at Newtown, Powys, while plans were drawn up for a permanent, purpose-built factory. Traltec had intended to have a 25,000 sq ft plant but decided to accelerate its expansion programme. Work has now started on a 51,000 sq ft factory which is being built for Traltec by the Development Board for Rural Wales.

The park, Buttington Cross at Welshpool, has already attracted two other foreign-owned manufacturers, Wipak UK of Finland, which makes packaging film for the fresh food industry, and MVO of Italy, which makes plastic components for computer printers and photocopiers.

"We are very pleased with the way Traltec has begun its operations in rural Wales," said Mr Tadashi Shimizu, president of Shimizu Industry. He had also been pleased with the speed at which its project had been handled. "It is quite remarkable that the DBRW has found us premises, come up with plans for a new factory and a grant has been processed in just 10 weeks from our initial inquiry," he said at the time.

Mr Grenville Jackson, DBRW director east, says: "Within 12 months of the first contact with us, they will be in production in the new plant. We are increasingly finding that, in terms of competing for projects, speed gives us a very strong competitive advantage. If we can put projects together quickly, we can win them. Other things have to be taken into account, but once a company has taken a decision, it wants to move very quickly." Mid Wales, he says, has the advantage of offering rapid links to both Manchester and Birmingham airports.

Roland Adburgham

■ Scotland: by James Buxton

Taiwan closes an important gap

Locate in Scotland claims that 1995-96 was another record year for inward investment

Last year it was Scotland's turn to achieve an inward investment spectacular. A few months after Siemens, the German electronics company, had announced plans to set up a semiconductor plant near Newcastle, the Chung Hwa Picture Tube company of Taiwan and the Scottish Office made their own joint announcement.

Chung Hwa would set up a plant making cathode ray tubes for televisions and computers at Mossend in Lanarkshire, involving capital expenditure of £260m. The project is expected to create 3,300 jobs over the next four to five years.

What made the Chung Hwa investment particularly satisfying for Scotland was that the number of jobs involved was roughly the same as those lost in the closure between 1990 and 1992 of British Steel's Ravenscraig steel complex, also in Lanarkshire. Furthermore, the project will fill an important gap in the product line of component suppliers in Silicon Glen, the Scottish electronics industry.

Scotland continues to receive a steady stream of inward investment. Locate in Scotland, the inward investment agency which is a joint operation of Scottish Enterprise and the Scottish Office, recently claimed that 1995-96 had been another record year. It achieved its highest ever figure for the number of planned jobs that would be created or safeguarded by investment from outside Scotland, a total of 12,500.

The number of planned inward investment projects in the financial year fell, however, from the 1994-95 figure of 97 to 84, and the total planned investment was slightly down at £981m compared with £1.12bn in the previous year.

The figures are only a rough guide because they are compiled by adding up the planned investment and employment totals stated by the investing companies. The Scottish Office regularly warns that a few projects may not go ahead and others may be scaled down.

Among the larger investments which Scotland secured last year was a £26m project by Lexmark to make computer printers at Rosyth in Fife, bringing an eventual 500 jobs to an area hit by the closure of the Rosyth naval base.

But there were also a number of smaller arrivals by US electronics component makers, while established Japanese companies such as Shin-Etsu Handotai, which makes silicon wafers, and Seiko Instruments, making tiny printed circuit boards for watches, expanded their plants.

> Scotland continues to receive a steady stream of investment

Although electronics accounted for three quarters of all new inward investment in Scotland in 1995-96 – a figure roughly in line with previous years – there were also investment decisions by companies in sectors such as chemicals, engineering and food and drink, some of it from UK companies.

The process continues: in May Mr Michael Forsyth, Scottish secretary, announced in Seoul that the South Korean company Shin Ho Tech would set up a plant in Glenrothes to make computer monitors.

Mr George Kynoch, the Scottish industry minister, attributes Scotland's inward investment success partly to the professionalism of Locate in Scotland which provides a one-stop shop for companies interested in coming to Scotland. Like the Welsh Development Agency in Wales, LIS has an advantage over parts of England which are less able to co-ordinate the operations of local government and local development bodies.

However, there have recently been suggestions that the Treasury is unhappy that these two well-established agencies may waste money by attempting to outbid each other with aid packages and other benefits to attract companies.

The supposed threat to Locate in Scotland produced a predictable closing of ranks, with Sir Donald Mackay, chairman of Scottish Enterprise, saying that "the independence of LIS will be stoutly defended".

The Invest in Britain Bureau, an offshoot of the Department of Trade and Industry, has made little secret of its wish to centralise the UK's initial approach to potential inward investors and leave the regional agencies to find them a home and look after established investors. But the Scots believe it would be difficult for the IBB to match the professionalism of the main regional agencies.

A more potent threat is posed by competition from Ireland which continues to gain incoming companies at the expense of Scotland. At the end of June, International Business Machines decided to expand its telephone-based customer service operation for Europe.

Of the 950 jobs this will create, some 700 will be in Ireland, with the remainder going to IBM's plant at Greenock in Renfrewshire.

Scottish Enterprise and the Scottish electronics industry have been conducting a long campaign to persuade the government to alter the rules governing regional selective assistance to make it attractive for companies to locate design and development operations in Scotland.

These operations would not initially create many jobs but would, it is argued, raise the quality of jobs in the industry and embed the plants of inward investors more firmly in Scotland. However, the government has so far said it does not propose making changes.

PROFILE George Kynoch

Salesman for Scotland


George Kynoch: a bit of marketing and a bit of diplomacy

The briefest flip through the latest report of Locate in Scotland leaves one in no doubt about the identity of the Scottish office industry minister: George Kynoch's face appears on 13 of its 32 pages.

His photograph is almost always taken when inward investments to Scotland are announced. But in the case of Chung Hwa, the biggest inward investment Scotland has ever won in terms of jobs, Mr Kynoch was involved almost from the start.

In early 1995, shortly after being catapulted from the back benches to ministerial office, Mr Kynoch was asked at short notice to host a dinner in Edinburgh for senior executives of Tatung, the Taiwanese parent of Chung Hwa. "It meant getting myself slipped from a three-line whip at Westminster to fly up to Scotland," he recalls.

Having frequently visited Japan in his business career with the formerly family-owned textile company G & G Kynoch, he knew the importance of developing "good personal relationships with the people you are working with".

Though Scotland's inward investment effort is a partnership of the Scottish Office, Scottish Enterprise, local enterprise companies and local authorities, it was necessary in an important case such as Chung Hwa to show that "the government was involved from the top".

In late summer Mr Kynoch was paying one of the UK government's limited ministerial visits to Taipei. A decision by Tatung was imminent and he led the Scottish negotiating team.

After a time he asked Mr C.Y. Lin, a member of the family that owns Tatung, to take him round some of its factories while the negotiators hammered out details. When the two returned the Taiwanese said that they had chosen Scotland, subject to some conditions.

Looking back, he says: "I suppose you could call my role a bit of marketing, a bit of diplomacy and a bit of chairmanship. When you are up against strong rival assistance packages from other inward investment locations, to see the UK sold by a minister can be very important."

James Buxton

CASE STUDY Mann & Hummel

Midlands beats off rivals

On the global scale of international investment, the £12.5m plant beginning construction near Wolverhampton is hardly large. But it is a mark of the intense competition surrounding inward investors that more than 25 sites across the UK and continental Europe were seriously considered before Mann & Hummel, the German car component manufacturer, settled on the Midlands.

The 11-acre air filter factory, which will create more than 150 jobs in Hilton Cross near South Staffordshire, is Mann & Hummel's first investment in the UK. Hilton Cross had to beat more obvious competitors such as an expansion of the company's existing factories in Spain, eastern Germany and the Czech Republic.

Hilton Cross also faced competition from several sites in the UK. South Yorkshire, the North East and the East Midlands were all strong contenders to attract the company, which is based near Stuttgart and claims around half of Europe's market in car air filters.

However, the West Midlands' package of assisted area status, low labour costs and its large automotive industry, provided a strong overall argument to beat its rival sites. Mr Jurgen Gabriel, of Mann & Hummel, said: "One of the most important reasons for choosing this site is the communications with our customers. We have a policy to be nearer to our customers and to go where they are.

"But another important reason is the lower costs, particularly labour costs. In eastern Germany, for instance, we think the gap between labour costs there and in western Germany will shrink faster than the gap between the UK and Germany overall."

Leading the bid to attract Mann & Hummel, West Midlands Development Agency reassured the board about the region's industrial skills by arranging meetings with other German investors. It was in discussions with Brose in Coventry and VDO Instruments in Birmingham that Mann & Hummel became convinced that issues of productivity and recruitment would not cause problems for the new plant.

The overall package offered by the West Midlands includes training assistance from Wolverhampton Training and Enterprise Council. But it also takes advantage of the new Regional Supply Office, which will source components such as air filter casings and plastic injection mouldings from local suppliers.

By next spring, when the plant is due to begin production, Mann & Hummel hopes to have begun work on further plans for inward investment in the region.

Mr Gabriel said: "This is just the first and assured stage. It is possible that we will expand this factory."

Richard Wolffe

■ Midlands: by Richard Wolffe

Big projects elude region

Behind the headline figures are concerns that the Midlands is falling behind its rivals

By its own admission the Midlands has been relatively slow to respond to the fierce competition over inward investment into the UK. In spite of its traditional strengths in manufacturing, as well as its ability to call on government and EU grants, the region is disappointed by its record of securing success with foreign investors.

At first glance the figures seem encouraging. The West Midlands attracted 78 investment projects worth £840m last year, creating a record 7,000 jobs and safeguarding another 4,400. It consistently wins around a fifth of all new direct investment in the UK, amounting to more than £4bn of investment over the last 10 years.

But behind the headline figures are concerns that the region is falling behind its UK rivals. Of the 78 investment projects in the West Midlands, just 13 represented new companies and the average size of each project remains small at around 96 jobs each.

In the East Midlands the figures are more disappointing. In spite of having one of the largest manufacturing sectors of any region, the East Midlands attracts just 5 per cent of inward investment compared to its production of around 7 per cent of GDP.

In its recent studies of regional competitiveness, the Confederation of British Industry highlighted both regions' shortcomings in winning inward investment – particularly large projects. The CBI said both the East and West Midlands were struggling against a lack of support within their own regions.

Mr Chris Tillett, principal of Coopers and Lybrand in Birmingham and one of the authors of the CBI study of the West Midlands, said: "We believe that large projects are important to the region to sustain the manufacturing base. It is our view that we are still failing to attract our fair share of inward investment because of a lack of co-ordination between those leading bids."

Meanwhile, in the East Midlands, the CBI reported conflicts between local authorities, training and enterprise councils and the private sector. The CBI said that the first two years of the East Midlands Development Company (EMDC), established to attract inward investors, had been uncomfortable as there had been confusion between different agencies.

The result has been a lack of resources in both halves of the Midlands to compete against other regions in the UK. West Midlands Development Agency (WMDA), for instance, has an annual budget of around £1.1m – around 30 per cent lower than equivalent organisations around the country. Its Regional Supply Office, which aims to source suppliers to inward investors within the locality, has a further £400,000. By contrast, the Regional Supply Office in the North West has a budget of £1.4m on its own.

Both Midland regions say they are restricted not just by limited funding from central government but also a squeeze on contributions from local authorities and the private sector.

Mr Paul Richards, chief executive of WMDA, said: "Our real problem is that even among the English regional development agencies, we are quite small given the industrial strength of the region and the number of inward investors there are here."

The lack of cash leads to something of a vicious circle. The low level of funding causes inadequate co-ordination and marketing, which in turn means the region fails to marshal its funds towards attracting investors. Many in the private sector – particularly those in manufacturing – have yet to be convinced that winning inward investment can provide tangible benefits to their own trading, rather than merely giving foreign competitors a foothold in their own backyard.

The result is that inward investors miss the industrial logic of siting their projects in a region which is at the heart of UK manufacturing – as well as its transport network – and can offer the research and development resources of more than a dozen universities.

Larger investors are also missing the Midlands because of a simple lack of space. The region is still smarting over Siemens's decision to locate its £1.1bn semiconductor plant in North Tyneside last year. Siemens was close to investing in the region, but the only site large enough to accommodate the plant suffered from vibration from a nearby railway line.

Since then the region has identified two greenfield sites which could provide the space for large inward investors while still qualifying for assisted area status. Philips, the Dutch electronics group, is considering a site to the north-east of Birmingham, and there are thought to be half a dozen similar projects looking to build facilities in the UK's regions within the next two years.

The attraction of a large investor is not simply the impact on employment. Such high-tech projects would be a welcome diversification for the Midlands away from its old metal-bashing image, and would act as a catalyst for high-tech investment by indigenous manufacturers.

But before the Midlands can win such high profile projects, it must first overcome the inevitable controversy of developing green belt land in what are often prosperous commuter areas. Political opposition is already mounting to Philips's proposed site, at Minworth, and a second site north of Wolverhampton.

Instead, the West Midlands has had more success in attracting larger investors to its traditional area of strength – the automotive sector.

Jaguar is expected to create 1,300 jobs itself, and a further 5,000 among car parts suppliers after confirming earlier this year that it will build its new X200 saloon in Birmingham. While the £400m project was clinched by the government-backed aid package of £80m, the investment was also a reflection of the revived fortunes of car production in the Midlands.

For the East Midlands, which is unable to rely on such a wide access to government grants, the challenge is even greater. Just one third of inward investments in the region have a grant attached to them, so the marketing drive must instead concentrate on the business case for locating there.

For example, the region points to UPS, the US logistics company, which decided to invest £1.7m in a telephone operations centre in Nottingham last year, creating 300 jobs.

Mr John Finch, chief executive of EMDC, said the region was currently identifying other key sectors – such as food processing – which could lure investors to the region for its industrial strengths rather than the depth of its pockets. "Development organisations in the past have got a bit grant-dependent," he said. "Instead of talking about sites and grants, we have to explain that the Midlands has superb business opportunities, in its location and its supply chain network, for instance."

■ Merseyside's renaissance: by Ian Hamilton Fazey

Polish for a tarnished image

Merseyside is at last beginning to make progress in restoring its reputation

Merseyside has started passing the acid test of confidence – inward investors are putting their money into a conurbation that until recently was such a no-go area it never even made the initial list drawn up by those choosing to relocate.

For much of this century, Merseyside has been blighted by structural decline in its manufacturing economy. To make matters worse world trading patterns changed and a revolution in shipping and stevedoring technology wiped out thousands of jobs in and around the Port of Liverpool.

The Toxteth riots of 15 years ago gave the world a lasting impression which was not good, and the Militant-controlled Labour Party's confrontation with the second Thatcher government during 1983-87 left Liverpool in debt to foreign banks, politically unstable, and seemingly ungovernable.

After years of struggling to restore equilibrium, however, Liverpool last year made the short list for Siemens's new microchip plant, losing narrowly to Newcastle upon Tyne in the final round. It was no flash in the pan, as a series of inward investments has since proved.

Merseyside is scoring in customer service and call centres, manufacturing, offshore oil and gas, retailing, warehousing and distribution. Mr Neil Rami, marketing manager of the Mersey Partnership of public and private sector activists, says 120 inward investment projects have been recorded in the last 12 months.

For example, QVC, Britain's television shopping channel is investing £14m in building a 125,000 sq ft fulfilment house and 50,000 sq ft call centre at Knowsley, Liverpool's neighbouring borough. It will create an initial 1,100 new jobs, with more likely to follow.

NatWest is locating a £5m customer service centre in Wavertree Technology Park, Liverpool, with 400 jobs, of which 100 will be new. Intrum Justitia, the European credit services company, is also setting up a call centre in Liverpool, creating 100 jobs.

In manufacturing, newcomers include Mackie Automotive Systems, which has opened a factory in the former Cammell Laird Shipyard at Birkenhead to provide just-in-time supplies of head linings, carpets and bumpers to Vauxhall's plant at Ellesmere Port. Meyer, the Hong Kong cookware manufacturer, is also relocating its UK operations to Birkenhead, this time to Twelve Quays, a waterfront site near the town centre.

Other incoming manufacturers include Raybestos, which makes brake linings, Williams & Jones, a Taiwanese fork-lift truck maker, Lea Green Services, a packaging company, and Philips Wilkinson, which produces advanced computer-

Continued on page 8

■ **Northern Ireland:** by John Murray Brown

Uncertainty clouds future

For 25 years, Northern Ireland has had a tough task competing with other locations

Violence has returned to hamper the efforts of Northern Ireland's Industrial Development Board just at a time when it seemed the authorities were winning the battle to lure foreign investment back to the province.

The region had its best year in attracting foreign direct investment in 1995-96, buoyed by a new level of international interest in the province following the announcement of the paramilitary ceasefires at the end of 1994.

However, the future looks far from certain with the resumption of the IRA's terror campaign and the recent unrest, although the impact has yet to show through in the behaviour of foreign companies.

Throughout the 25 years of the Troubles, Northern Ireland has had a tough task competing with the other UK locations and with the Irish Republic in the battle to attract new inward investment.

A survey in April by accountants Coopers & Lybrand showed that 84 per cent of companies locating in Northern Ireland had considered alternative locations. The survey suggests the main attraction was not the generous grants on offer but the availability of a pool of labour, and the high skills levels. Although investors complained of transport and energy costs, the survey said actual operating costs were "significantly less" than investors had expected.

Northern Ireland, with only 3 per cent of the population, attracted a creditable 9 per cent of the new jobs promoted in the UK in 1994-95, according to the Coopers survey.

The IDB is targeting high-technology sectors, such as electronics and data processing. But the IDB chief executive, Bruce Robinson, says more traditional areas such as textiles and car components are also seen as offering growth potential.

The IDB provides generous grant support, up to 50 per cent of capital costs in some of the more economically-depressed areas. With unemployment running at around 11 per cent, there are few labour constraints. In addition, Northern Ireland, as part of the UK, offers investors the advantages of lower social costs because the UK has not signed up to the Social Chapter of the European Union.

The UK's competitive wage structure makes it an attractive platform for companies looking to sell into the European Union. "It is our perception that Brussels treats European and Asian companies differently. We see a discrimination, and felt we needed a European presence to avoid that," says Mr Hoon Lee, chairman of Dae Ryung, a small Korean electronics company which announced a £17m investment to make television satellite receivers in Craigavon.

High profile visits by both the prime minister, John Major, and the US president, Bill Clinton, have done much to raise the awareness of the province's potential. The president's support for the province's investment efforts helped allay US business concerns about the allegations of anti-Catholic bias in Northern Ireland employment policy, which in the past had dissuaded a lot of US corporations from coming to the province.

According to the IDB, there were 35 new investments by foreign-owned companies in 1995-96. Together these projects are expected to create more than 4,800 jobs.

They included a £113m joint venture between Emerson Electric and Caterpillar to make diesel generators; a £142m expansion at Montupet, the French-owned car components manufacturer which has set up in west Belfast near the peace line separating Protestant and Roman Catholic areas; and a £7.36m investment by Fujitsu, the Japanese electronics company, to make telecommunications equipment at the Springvale site, also in west Belfast.

US companies remain the largest source of both new investment and expansions, and cover a range of activities from Copeland Corporation which announced a £33m investment to make refrigeration parts in Cookstown, to Seagate Technology, which is expanding its Derry operation where it makes read write heads for disc drives.

IDB officials reported that there has been a 60 per cent increase in investor interest from the US, which they hope will translate into new investment commitments. The province has attracted a number of the established US names. Du Pont, the US chemicals firm, was one of the first foreign investors in the province, arriving in 1957. Ford has a car assembly plant outside Belfast.

But there are also signs of increased interest from the east where the IDB has been making a concerted marketing effort in recent years. Since 1988, Northern Ireland has secured six Korean projects – three of them since the paramilitary ceasefires – with total commitments of more than £100m and the promise of more than 2,000 jobs. In March, the IDB announced that Daewoo, the Korean electronics firm planned a £14.8m expansion at its Antrim audio equipment manufacturing plant, creating 330 jobs.

Daewoo's presence has been instrumental in persuading a number of smaller Korean companies – some of Daewoo's suppliers – to come to Northern Ireland. Mr Frank Hewitt, the IDB deputy chief executive in charge of foreign direct investment, says investors often follow the herd instinct. "When one comes, they all come. But momentum is important. Companies don't like to be pioneers."

The visit of President Bill Clinton to Northern Ireland last year did much to highlight the province's potential

■ **South west** by Roland Adburgham

A doubly desirable destination

The West of England Development Agency was launched last year to sell the area to the world

South-west England is known within the UK as one of the most desirable parts of the country in which to live and work, as shown by its high rate of inward migration.

In the past, its relative prosperity and low unemployment, and company relocations from within the UK, caused the south-west to see little need to promote itself. That attitude has changed. It wants to be recognised as an equally desirable destination for foreign-owned companies, and one which is well positioned to act as a European "gateway".

One benchmark of this was the launch, last autumn, of the West of England Development Agency (Weda), backed by the government's Invest in Britain Bureau, and with the brief of "selling" the area around the world.

This agency, in fact, does not represent the whole region, which is divided into two distinct parts. The west of England, with its regional capital of Bristol and the counties of Wiltshire, Gloucestershire, Somerset and Dorset, has rapid access by motorway and train to London. The far south-west of Devon and Cornwall, with Plymouth as the dominant city, lag behind in economic terms. Cornwall, especially, has suffered from its peripheral status and changes in its traditional industries of agriculture, fishing and tourism.

As a recognition of their special case, those two counties have their own long-established agency to woo foreign companies – called Devon & Cornwall Development International (DCDI). It was not until the recent recession, coinciding with the contraction of the region's substantial defence industry, that the whole south-west realised it needed to be more positive to attract investment.

DCDI has had notable successes – attracting companies such as Toshiba and Kawasaki of Japan and Northern Telecom of Canada. In the west of England, there are substantial operations such as those of Hewlett Packard at Bristol. Swindon in Wiltshire, with its proximity to London and Heathrow airport, has many foreign-owned companies, including Honda of Japan and Motorola of the US.

Overall, however, the region's share of UK foreign direct investment has been low. In the past financial year, 4,800 jobs were created or safeguarded – only 5 per cent of the UK total.

There is a variety of reasons. Inter-county rivalries undermined the promotion of a regional strategy. Relocation by UK companies in the 1970s and 1980s, especially those in banking, insurance and financial services, helped to mask job losses in declining industries.

In turn, the government saw limited need to upgrade the transport infrastructure or to provide grants to attract companies. Regional selective assistance is only on offer in Cornwall, Devon and south-west Dorset. DCDI has a fraction of the funding of the Welsh Development Agency, as has the new agency, Weda.

Weda itself has grown out of a clutch of initiatives for economic regeneration which the public and private sectors have formed in the past few years, in response to the need to create jobs for a rising workforce.

Bristol, for example, has its Western Development Partnership. Gloucestershire's development agency has launched an "ambassadors" programme, recruiting more than 100 business people to extol the county's merits through their overseas contacts.

Somerset's agency is seeking to capitalise upon its business parks along the M5 motorway. Devon and Cornwall have the Westcountry Development Corporation and Cornwall has a promotional programme called In Pursuit of Excellence.

The result is that there are now too many organisations, some competing with each other, to allow the region to project a clear identity. The Confederation of British Industry in the south-west has called for "outdated wrangles" to be put aside.

It states: "All the bodies involved in economic development within the region must co-operate towards a common end... The existing lack of regional identity must be countered."

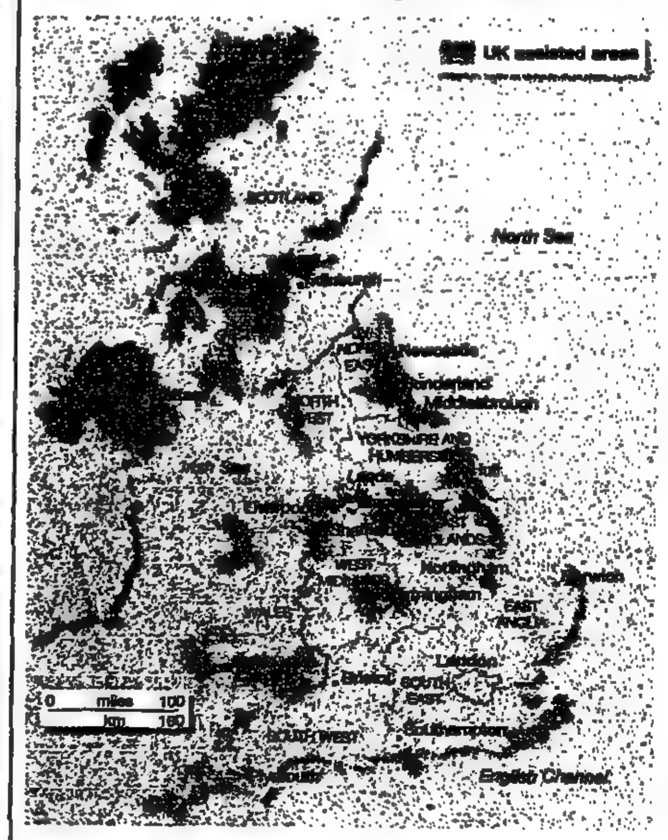
As an umbrella organisation with limited resources, Weda faces a tricky task of co-ordination if it is to help achieve that aim. But Mr Peter Connor, Weda's chief executive, is optimistic: "The west is very much starting to think and act as a region." He sees it as a "driver region", with good telecommunications and universities and strengths in financial services, advanced engineering, food and drink processing, and multimedia. He believes it can capitalise upon these strengths through global networking with similar overseas regions.

"The west," he says, "can play a very strong card – it has high skills, high technology industries, high quality of life plus the proximity to London."

Economic forecasters tend to share the confidence about the south-west's prospects. There are signs, too, that internationally the region is becoming recognised as a place with strong growth potential. An indication was the takeover last year of Sweb, the regional electricity generator, by the US utility Southern.

What is also clear is that insular attitudes are being abandoned.

When the CBI asked business people in the region what they considered to be the main priorities for its future competitiveness, they put promotion of inward investment at number one.



Polish for a tarnished image

Continued from page 7

controlled tools.

Two big changes are under way as far as economic structure is concerned.

First, Mersey Docks and Harbour Company is back from the dead, with a highly mechanised Port of Liverpool manned by a new stevedoring workforce recruited and trained after the old one was sacked almost to a man in a dispute last year. The port was already making highest-ever profits on record annual throughput of 30m tonnes of cargoes.

The second change this year has been BHP's commencement of oil and gas production from several medium-sized fields it found in Liverpool Bay four years ago, a development which has cost the company more than £1bn.

Merseyside has had only modest amounts so far – £75m spent with local companies – but this is expected to mount towards a steady £3.5m a month over 20 years as local expertise in servicing the sector improves.

With the oil and gas fields' supply depot in West Hornby Dock, Bootle, and the helicopter base at Liverpool Airport, the development of the new industry has given a fillip to some lesser-used dockland and the greatly under-used airport, which struggles in the shadow of Manchester's Ringway, 25 miles away. Indeed, the latter is as much Merseyside's local international airport as of anywhere else in northern England.

In warehousing, the area has attracted Morrison's national distribution centre to the site of the former Parkside colliery in St Helens, and the food wholesaling subsidiary of Booker to a site between Liverpool and Warrington. In retail, PriceCostco has opened a new membership warehouse club in Liverpool city centre.

A steady drip of government and EU help – which has now become a torrent – is one factor behind this turnaround. Merseyside Development Corporation has spent 15 years rescuing the Mersey waterfront from dereliction, but a much wider area is now half way through spending £630m of EU catch-up funding over six years, awarded after average gross domestic product a head dropped below 75 per cent of the EU average.

Part of this has gone to the Mersey Partnership of public and private sectors for an image campaign stressing Merseyside's depth of talent. The partnership, however, is in itself a big advance.

Past political instability forced the private sector into hiding; its participation now in promoting Merseyside testifies to the improvement in the general climate for business.

Mr Rami says research has shown a 50 per cent improvement in national business audience awareness of Merseyside's strengths since its campaign began, with an 18 per cent gain in positive perceptions. It means more investors will at least look at the area rather than reject it unseen.

Merseyside is still getting some bad press, however. A spate of gangland shootings brought predictably lurid coverage by some London journalists with poor local knowledge. Mr Peter Davies, Liverpool city council's information chief, claims its gun-crime problem is not as bad as London's.

Meanwhile, the dockers sacked by the port last year – they refused to cross an unofficial picket line – have generated coverage reminiscent of Merseyside's bad old image as a bastion of intransigent trade unionism.

Many in the business community active in promoting the area, however, believe this has, paradoxically, been a good advertisement.

The port is now doing even better, proving, they say, that even on Merseyside a determined management can manage – a vital factor in passing the acid test.

FT MANAGED FUNDS SERVICE

Offshore Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

[illegible]

BERMUDA (REGULATED)(**)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

Lloyds Intl Money Market Fund Ltd

[illegible]

M & G (Guernsey) Ltd

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

Rothschild Asset Mngmt - Contd.

[illegible]

Royal Bank of Canada Intl Money Market Fd

[illegible]

Sandi International (Guernsey) Ltd

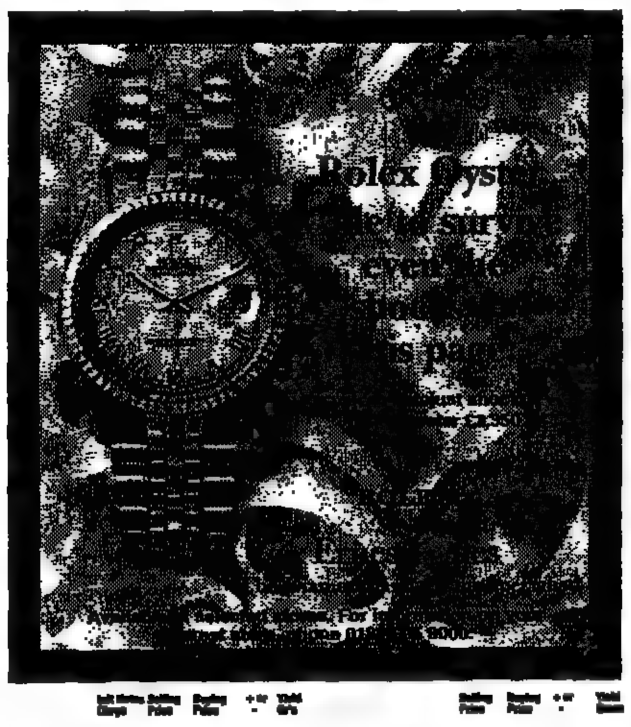
[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

LGT Asset Management Ltd - Contd.

[illegible]



Tilney (Ireland) Ltd

[illegible]

IRELAND (REGULATED)(**)

AIB Fund Management Ltd

[illegible]

AIG Asset Management Ltd

[illegible]

Gordon House Asset Management Ltd

[illegible]

HSBC UK Equity Plus Plc

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

Scottish Mutual Intl Fund Managers Ltd

[illegible]

Singer & Friedlander Closed Funds Plc

[illegible]

Societe Generale Group

[illegible]

Stellar Fund Plc

[illegible]

Hill Samuel Fund Mgrs - Contd.

[illegible]

Lloyds Bank (CI) U/T Mgrs.

[illegible]

Midland Bank Fund Managers (Jersey) Ltd

[illegible]

JERSEY (REGULATED)(**)

[illegible]

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Perpetual UT Mngrs (Jersey) Ltd

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

Dresdnerbank Asset Mngmt SA (u)

[illegible]

E.T. Investment Management Ltd

[illegible]

Eigisten Global SICAV (u)

[illegible]

Manulife Regent Global Fund (u) (z)

[illegible]

Mercury Asset Management S.A.

[illegible]

LUXEMBOURG (REGULATED)(**)

Aetos International Umbrella Fund (u)

[illegible]

Credis Investment Funds - Contd.

[illegible]

Merrill Lynch Asset Management - Contd.

[illegible]

Swiss Bank Corporation

[illegible]

OFFSHORE INSURANCES

[illegible]

CMI Ins Co Ltd/Clerical Med Gen Life - Contd.

[illegible]

OTHER OFFSHORE FUNDS

[illegible]

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

[illegible]

BANKS, MERCHANT

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CHEMICALS - Cont.

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

FOOD PRODUCERS - Cont.

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

OTHER FINANCIAL - Cont.

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column only as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- • Highs and lows marked thus have been adjusted to allow for capital changes.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ◆ Figures or report awaited.
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange
- ♣ Free annual/interim report available, see details below
- ✦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield: p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment

F Yield based on prospectus or other official estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue
H Yield based on prospectus or other official estimates for 1995.
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings
M Yield based on prospectus or other official estimates for 1995-96.
N Dividend is paid in whole or part as a

FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date

Abbreviations:
xd ex dividend
xc ex scrip issue
xr ex rights
xa ex all
xc ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1360 a year for each security shown, subject to the Editor's discretion

♣ FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Please quote the code FT5855. Ring 0181 770 0770 (open 24 hours including weekends) or Fax 0181 770 3822. Reports will be sent the next working day, subject to availability.

✦ FT Company Focus / Focus Plus

Comprehensive 10-16 page report available on this company, containing key news stories from the last year, latest survey of City profit forecasts and investment recommendations, 5 year financial and share price performance review, balance sheet and profit and loss data, plus recent Stock Exchange announcements.

Company Focus (FT news) £6.45.
Focus Plus (FT and Investors Chronicle news) £8.95.
To order, call 0121 200 4678.
Reports published by ShareFinder Ltd.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.

An international service is available for callers outside the UK, annual subscription £250 stg

Call 0171 873 4378 for more information on FT Cityline.

For readers phoning from outside UK, please dial +44 in place of the first 0.

The share prices printed on these pages are also available on the internet at www.FT.com.

LONDON STOCK EXCHANGE

MARKET REPORT

Equities take heart from big Wall Street rally

By Steve Thompson, UK Stock Market Editor

Wall Street's startling recovery on Tuesday night gave London's equity market a much needed boost yesterday. The Dow Jones Industrial Average, which had been some 160 points lower at one stage on Tuesday, eventually closed nine points ahead.

And European markets, including London, were given a further shot in the arm when Wall Street opened for business yesterday afternoon. The Dow raced up more than 60 points, only to slip back rapidly later in the session.

Helping UK shares build on a bright start to the day was some encouraging economic news, which included better than expected figures for average earnings.

On the other hand, the market was unsettled by the minutes of the June meeting between Mr Kenneth Clarke, the chancellor of the exchequer, and Mr Eddie George, governor of the Bank of England. These revealed the governor's unhappiness over the chancellor's decision to cut UK interest rates at that time.

The split between the two saw gilts relinquish their initial small gains and eventually finish little changed.

By the end of the day the FT-SE 100 index had recouped 25.9 of Tuesday's loss, at 3,658.2, with market observers noting the recapture of the 3,650 level as a healthy signal.

Second liners fared much less well, with the FT-SE Mid 250 index only managing to recapture 8.4 of the previous day's 90.6 drop and closing at 4,207.4. The Mid 250 was burdened by a handful of profits warnings from constituent stocks, including Iceland, the frozen food retailer, and English China Clays.

There was more bad news for the recent high-flying biotechnology stocks, with British Biotech, the flagship of the sector, taking another pounding and slipping in excess of 3 per cent ahead of news that only half the £144m rights issue had been taken up, leaving the rest with the sub-underwriters.

Dealers said many of the bears of British Biotech in recent days would look to close their short positions by acquiring stock when the rump is placed in the market.

Seasoned traders in London expressed their astonishment with Wall Street's overnight performance and remained dubious about the US market's ability to maintain the recovery.

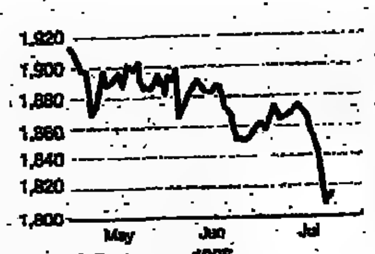
One head trader said he felt the Dow had now fallen far enough in the short term but warned: "The Dow and the UK market don't feel comfortable at all; it's too soon to call the bottom of the markets."

Another said investors should expect "savage spikes for some time to come; the markets at the moment are not for the faint hearted".

One of the biggest disappointments in yesterday's performance by UK stocks was the continuing poor level of genuine retail, or customer, business. Much of trading activity is between marketmakers. Turnover at 6pm just managed to creep over the 600m-share mark, settling at 601.3m, of which 54 per cent was in non-Footsie stocks.

Retail business on Tuesday, when the market looked set at one point to register its biggest one-day fall for almost four years, was £1.8bn.

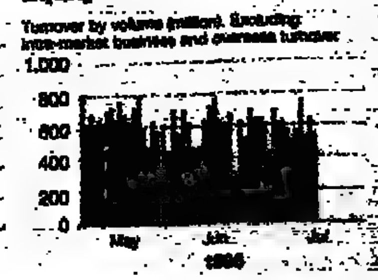
FT-SE-A All-Share Index



Source: FT Extel

Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover.



Indices and ratios

FT-SE 100	3658.2	+25.9
FT-SE Mid 250	4207.4	+8.4
FT-SE-A 350	1836.3	+10.7
FT-SE-A All-Share	1818.05	+8.87
FT-SE-A All-Share yield	3.95	3.97
FT Ordinary index	2678.7	+9.9
FT-SE-A Non Fins p/e	16.43	16.34
FT-SE100 Fut Jul	3662.0	+31.0
10 yr Gilt yield	7.93	7.95
Long gilt/equity yld ratio:	2.10	2.09

Best performing sectors

1 Tobacco +2.8
2 Electronic & Elect Equip +1.4
3 Telecommunications +1.2
4 Oil Exploration & Prod +1.0
5 Life Assurance +1.0

Worst performing sectors

1 Other Financial -0.3
2 Food Producers -0.2
3 Engineering: Vehicles -0.1
4 Paper, Pack & Printing 0.0
5 Extractive Industries 0.0

Mood improves on BAT

BAT Industries, the tobacco and insurance conglomerate, rose 13 to 498p, shareholders encouraged by a UK decision that legal aid would not be granted for smoking claims.

Current action involves 300 people seeking damages of £15m. If the action had succeeded, however, it is estimated that some 200,000 cases, collectively claiming damages of £5bn to £10bn, could have followed.

In fact, BAT does not sell cigarettes in the UK and any financial effect is likely to be minimal. But the news contributed to a gradually improving attitude to the company.

The shares have underperformed the Footsie by 9 per cent over the past year. Merrill Lynch and SGST were positive on the company in the wake of a restructuring announcement by BAT earlier this week.

The shares were also helped by strong profits figures from Philip Morris, of the US.

Iceland shivers

Analysts lowered full-year pre-tax profits forecasts for Iceland, which fell 34 to 118p – the worst performer in the FT-SE Mid 250 index – following a profits warning.

The company said that in late May it had launched a new Pricewatch initiative, designed to sharpen its prices, but in the short term it was having an adverse impact on its buying margins.

SBC Warburg reduced its forecast from £72.5m to £61.5m, while Paribas cut its estimate by £7m to £70m. Analysts said pressure on sales would continue as the popularity of frozen food was in relative decline and the superstores were improving their competing products. The warning had a knock-on effect on Kwik Save, which fell 7 to 431p.

Tesco rose 6 to 284p, with some analysts speculating that it will not now come to the rescue of Docks de France. However, one analyst said this line of thinking was premature, as Tesco did not have to make a decision until July 23.

Slip for ECC

English China Clays fell out of favour after the group warned of deteriorating trading conditions in its European minerals operations and lower margins at AmPac, its US subsidiary.

The shares surrendered 11 to 243p, as many brokers moved to downgrade current year profits expectations following the downbeat trading update. Profits predictions were reduced to around £65m.

Wolseley, the builders merchant and electrical accessories and agricultural machinery group, climbed 18 to 439p, the day's best performer in the Footsie.

With around 50 per cent of the group's turnover derived from the US, the stock is easily affected by economic sentiment in that country. Thus Tuesday's retreat on Wall Street saw the shares fall back heavily in London.

However, the recovery in both US and UK markets, combined with bargain hunting, helped bring about yesterday's rally in the stock.

Hanson, whose cigar division yesterday announced the acquisition of Dutch cigar manufacturer Cadena Claassen, remained weak. The shares gave up another 3¾ to 157½p, in trade of 8.1m.

Rank Organisation rose 13 to 478p, with Henderson Crosthwaite forecasting it will soon reach 500p and recommending the shares as a "strong buy". Henderson feels that Rank has been heavily oversold and that news from its interim results on August 8 will be positive.

Among telecommunications stocks, Orange, a weak market of late, bounced 6 to 188½p in trade of 4.7m. Around 35 per cent of the stock is held by US investors and it was US buyers that were said to be taking advantage of the recent fall in the stock. J.P. Morgan was also said to have issued a buy note on the shares.

BT saw buyers ahead of today's annual meeting and the shares closed 4 ahead at 356½p after heavy trading brought volume of 11m. Cable and Wireless was also wanted, adding 8 at 407p. Strong two-way business in Vodafone saw turnover rise to 15m. The shares edged up to 219p.

Data processing group CMG was the best performing stock in the FT-SE Mid 250 index as the market cheered the appointment of a new chief executive. The shares jumped 25 to 578p.

Among engineers, Hunting, which issued a profits warning on Tuesday, eased another penny to close at 142p. NatWest Securities said: "Barring some major positive news on the defence side, the shares are likely to remain in the doldrums for some time."

Talk that the government may at last announce a big defence order today lifted British Aerospace. The shares hardened 14 to 945p.

Blenheim, the conference and exhibitions organiser, improved 5 to 443p on expectation in the market that a takeover offer might emerge. United News & Media, which is believed to be interested in Blenheim, fell 9 to 620p.

Medeva, the pharmaceuticals group, rose 7 to 234p on better interim figures than analysts had expected and a confident statement on prospects.

British Biotech, which had been trading higher earlier ahead of the completion of its rights issue, slipped back in the afternoon to close 57 lower at 1963p. At that level the stock was well below the 2050p price of the rights offer, only half taken up at completion yesterday afternoon.

Scottish Power moved ahead 9 to 316p after the generator declared that it had received valid acceptances in respect of 64.57 per cent of Southern Water, up 5 at 1024p, and that its bid was now unconditional.

It was also announced that Electrabel, a Belgian utility, had bought a further 3m Scottish Power shares and now held 1.87 per cent.

Argos rose 17 to 696p and Next put on 12 at 519p, with both stocks bouncing back after marketmakers cut prices earlier this week.

Carpetright fell 19 to 535p, with one broking house moving from "buy" to "hold". Allied Carpets shortly will come to the market and analysts believe there could be some switching into it from Carpetright.

Speculation that the Monopolies and Mergers Commission may pronounce today on whether it would allow bids for Lloyds Chemists were said to be responsible for it rising 18 to 478p. Results more or less in line with expectations lifted H.P. Bulmer by 3 to 589p but adversely affected Matthew Clark, another large cider maker, which fell 13 to 717p.

An analyst said the fall in Matthew Clark was misjudged, as it had been marked down last week after explaining that it had lost market share because of major restructuring.

Marston Thompson & Evershed fell 15½ to 284½p after Kleinwort Benson moved the stock to a "sell".

A big placing helped Dana Petroleum improve 2¼ to 17¼p. The company placed 28.5m shares at 14p a share to raise £3.99m. It said part of the proceeds would be used to fund an early production programme at the company's Sortymskoye oil field in Siberia.

MARKET REPORTERS:
Peter John, Joel Kibazo, Lisa Wood.

FINANCIAL TIMES EQUITY INDICES

	Jul 17	Jul 16	Jul 15	Jul 12	Jul 11	Yr ago	*High	*Low
Ordinary Share	2678.7	2668.8	2723.1	2743.2	2760.8	2550.1	2885.2	2668.8
Ord. div. yield	4.16	4.17	4.10	4.03	4.03	4.16	4.12	3.76
P/E ratio net	15.86	15.80	16.09	16.38	16.38	15.99	17.35	15.80
P/E ratio nil	15.77	15.71	16.00	16.29	16.29	15.75	17.08	15.71

Ordinary Share index since compilation: high 2885.2 18/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2678.1	2678.0	2678.0	2678.9	2679.3	2682.6	2684.8	2684.6	2677.8	2688.1	2676.0

	Jul 17	Jul 16	Jul 15	Jul 12	Jul 11	Yr ago
SEAQ bargains	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Equity turnover (£m)†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Equity bargains†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Shares traded (ml)†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

†Excluding intra-market business and overseas turnover.

■ London market data

■ LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1996 High	1996 Low	Stock
§120	F.P.	13.3	136	132	AFA Systems
*	F.P.	862.9	120	†16½	Alomax
§125	F.P.	39.4	130	123	†BATM Adv Comms
§180	F.P.	40.1	202	191	Daltresen Brewery
100	F.P.	1,349	95	89	British Energy
34	F.P.	677.2	92	[illegible]	Central Motor
§170	F.P.	19.0	185	173	†Circle Comms
§122	F.P.	22.3	140	133	†Cirqual
*	F.P.	8.94	19	15	Concurrent Techn
§5	F.P.	3.07	4	4	†Doings of Bath
§145	F.P.	31.1	153	148	†Elec Retail Sys

† Alternative Investment Market. § Placing price. * Introduction.

FT GOLD MINES INDEX

Gold Mines Index (32)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Africa (13)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Australasia (7)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
North America (12)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FT - SE Actuaries Share Indices — The UK Series

■ FT-SE Actuaries All-Share

■ Hourly movements

■ FT-SE Actuaries 350 Industry baskets

■ FUTURES AND OPTIONS

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

■ FT-SE 100 INDEX OPTION (LIFFE) (*3658) £10 per full index point

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

TRADING VOLUME

■ Major Stocks Yesterday

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jul 17 / Sch)

BELGIUM/LUXEMBOURG (Jul 17 / Frs.)

CZECH REP (Jul 17 / Koruna)

DENMARK (Jul 17 / Kr)

FINLAND (Jul 17 / Mka)

FRANCE (Jul 17 / Frs.)

GERMANY (Jul 17 / Dm.)

GREECE (Jul 17 / Drachma)

ITALY (Jul 17 / Lire)

NORWAY (Jul 17 / Kroner)

POLAND (Jul 17 / Zloty)

PORTUGAL (Jul 17 / Escudo)

SPAIN (Jul 17 / Pts.)

NETHERLANDS (Jul 17 / Fl.)

SWEDEN (Jul 17 / Kronor)

SWITZERLAND (Jul 17 / Frs.)

TURKEY (Jul 17 / TL Lira)

PACIFIC

JAPAN (Jul 17 / Yen)

HONG KONG (Jul 17 / H.K.$)

INDONESIA (Jul 17 / Rupiah)

MALAYSIA (Jul 17 / MYR)

NEW ZEALAND (Jul 17 / NZ $)

SINGAPORE (Jul 17 / S$)

AUSTRALIA (Jul 17 / Aust$)

SOUTH KOREA (Jul 18 / Won)

TAIWAN (Jul 17 / TW $)

THAILAND (Jul 17 / Baht)

MONTREAL (Jul 17 / Can $) 3.30 pm

AFRICA

SOUTH AFRICA (Jul 17 / Rand)

NORTH AMERICA

CANADA

TORONTO (Jul 17 / Can $) 3.30 pm

INDICES

	Jul 17	Jul 16	Jul 15	1996 High		1996 Low	
Argentina							
General(29/12/77)	(u)	18640.11	18713.00	[illegible]	29/5	[illegible]	19/2
Australia							
All Ordinaries(1/1/80)	2086.1	2100.6	2147.1	2339.00	28/4	[illegible]	17/7
All Mining(1/1/80)	935.4	934.9	961.9	1118.40	8/5	934.90	16/7
Austria							
Credit Aktien(30/12/84)	358.98	354.76	362.72	394.99	31/5	[illegible]	2/1
Traded Index(2/1/91)	1036.50	1031.00	1049.89	1142.81	28/5	975.27	2/1
Belgium							
BEL20(1/1/91)	1868.42	1867.77	1894.13	1973.28	28/5	[illegible]	2/1
Brazil							
Bovespa(29/12/83)	(u)	62934.0	54099.0	[illegible]	12/7	[illegible]	2/1
Canada							
Metals Minls(1975)	(u)	4912.86	4935.88	[illegible]	8/5	4057.47	18/1
Composite(1975)	(u)	4920.59	4955.30	[illegible]	31/5	4730.78	15/1
Portfolio(4/1/83)	(u)	2430.02	2444.05	[illegible]	27/5	2327.29	12/1
Chile							
IGPA Gen(31/12/80)	(u)	5080.39	5025.00	[illegible]	8/1	[illegible]	8/4
Denmark							
CopenhagenSE(3/1/83)	405.92	407.19	413.13	419.16	4/7	[illegible]	2/1
Finland							
HEX General(28/12/90)	1986.32	1978.18	2012.60	[illegible]	31/5	[illegible]	10/1
France							
SBF 250(31/12/90)	1367.70	1363.19	1391.04	1457.56	6/6	1250.16	2/1
CAC 40(31/12/87)	1998.11	1989.51	2029.51	2149.79	30/4	1887.85	11/1
Germany							
FAZ Aktien(31/12/58)	883.46	877.29	898.34	911.74	5/7	[illegible]	2/1
Commerzbank(1/12/53)	2554.60	2535.80	2588.60	2627.89	5/7	2370.20	2/1
DAX(30/12/87)	2497.19	2469.79	2550.53	2583.48	5/7	[illegible]	2/1
Greece							
Athens SE(31/12/80)	895.67	892.36	905.83	1017.95	4/3	[illegible]	26/6
Hong Kong							
Hang Seng(31/7/64)	10508.10	10527.98	10800.13	11594.99	16/2	[illegible]	2/1
India							
BSE Sens.(1979)	3722.24	3844.65	3712.57	4069.25	18/6	[illegible]	25/1
Indonesia							
Jakarta Comp.(10/8/82)	576.28	573.32	578.01	638.21	24/4	512.45	2/1
Ireland							
ISEQ Overall(4/1/88)	2418.47	2404.90	2453.38	[illegible]	18/6	2224.81	3/1
Italy							
Banca Comm Ital(1972)	616.20	610.90	629.81	674.10	20/5	572.21	27/3
MIB General(2/1/95)	1044.0	1036.0	1059.0	1142.00	20/5	970.00	27/3
Japan							
Nikkei 225(16/5/49)	21412.88	21406.35	21753.42	22666.80	26/6	19734.70	13/3
Topix 300(1/10/92)	300.87	300.72	304.41	319.79	26/6	294.48	11/3

Japan, Malaysia, Mexico, Netherland, New Zealand, Norway, Philippines, Portugal, Singapore, South Africa, South Korea, Spain, Sweden, Switzerland, Taiwan, Thailand, Turkey, WORLD, CROSS-BORDER: [illegible]

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
CAC-40 (200 x Index)							
Jul	2004.5	1996.0	+8.0	2014.5	1995.5	18,583	29,940
Aug	2011.0	2002.0	+8.5	2015.0	2001.5	239	4,770
DAX							
Sep	2511.0	2507.5	+17.5	2520.5	2503.0	22,188	–
Dec	2532.0	2526.0	+18.5	2537.5	2523.5	487	–

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
OMX							
Jul	1470.00	1480.00	-5.00	1482.00	1464.00	4,855	13,545
Aug	1477.00	1484.00	+7.50	1486.00	1470.00	781	5,558
SOFFEX							
Jul	3710.0	3672.1	-37.9	3711.0	3645.0	14,076	28,007
Aug	3718.0	3680.0	-38.0	3718.0	3650.0	5,068	9,218

~ Sat Jul 13: Taiwan Weighted Price 6116.69; Korea Comp Ex 835.31. Base values of all indices are 100 except Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBL 30, SBF250, CAC40, Euro Top-100, ISEQ Overall – 1000; JSE Gold – 255.7; JSE 20 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. Metals and Minerals and DAX – all 1,000; JSE Gold – 255.7; † IBIS/DAX after-hours index: Jul 17 – 2497.89 -21.71. Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ¶ Subject to official recalculation. Calculated at 15.00 GMT. ⊕ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ◊ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ¶ Subject to official recalculation.

US INDICES

Dow Jones	Jul 16	Jul 15	Jul 12	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	5358.76	5349.51	5510.56	5778.00 (22/5)	5032.94 (10/1)	5778.00 (22/5/96)	41.22 (8/7/32)
Home Bonds	101.82	100.90†	101.13	106.88 (14/2)	100.90 (15/7)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	1969.57	1914.93	2000.17	2256.26 (22/5)	1912.71 (18/1)	2256.26 (22/5/96)	12.32 (8/7/32)
Utilities	213.53	215.55	217.06	229.30 (12/2)	205.42 (7/3)	259.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's High 5408.86 (5527.93) Low 5170.11 (5325.96) (Theoretical)
Day's High 5402.04 (5507.36) Low 5183.05 (5340.77) (Actual)

Standard and Poors	Jul 16	Jul 15	Jul 12	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	628.37	629.80	646.19	678.51 (24/5)	598.48 (10/1)	678.51 (24/5/96)	4.40 (1/6/32)
Industrials¶	743.71	745.65	765.56	807.88 (5/6)	702.07 (10/1)	807.88 (5/6/96)	3.62 (21/6/32)
Financial	63.78	63.65	64.73	66.56 (3/6)	58.57 (10/1)	66.56 (5/3/96)	8.64 (1/10/74)
NYSE Comp.	336.89	336.67	345.84	363.74 (24/5)	321.41 (10/1)	363.74 (24/5/96)	4.46 (28/4/42)
Amex Mkt Val	525.09	532.43	549.77	614.88 (29/5)	525.09 (16/7)	614.88 (22/5/96)	29.31 (9/12/72)
NASDAQ Comp	1052.40	1080.19†	1103.49	1249.14 (5/6)	988.57 (15/1)	1249.14 (5/6/96)	54.87 (31/10/72)

RATIOS

	Jul 12	Jul 5	Jun 28	Year ago
Dow Jones Ind. Div. Yield	2.26	2.22	2.19	2.36
	Jul 10	Jul 3	Jun 26	Year ago
S & P Ind. Div. yield	2.03	na	1.87	2.07
S & P Ind. P/E ratio	21.97	na	22.29	18.69

NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Change on day
Office Depot	14,450,500	14¾	-4⅝
Hewlett-Pack	8,546,300	41	+3⅝
Micron Tech	7,362,500	18⅝	+⅛
Motorola	6,583,900	51⅝	-1⅞
Tel de Mex	6,456,100	30⅝	+⅛
Tel Brasil	6,202,600	76⅝	-1⅞
IBM	6,163,100	95⅝	+4⅝
Texas Inst	5,819,300	44⅝	+2⅝
Merck & Co	5,661,400	61⅝	-1⅝
AT & T	5,615,400	53⅝	-1⅛

TRADING ACTIVITY

Volume (million)	Jul 16	Jul 15	Jul 12
New York SE	684.912	410.611	306.718
Amex	41.863	23.755	18.335
NASDAQ	[illegible]	[illegible]	332.708
NYSE			
Issues Traded	3,166	3,166	3,138
Rises	880	413	1,200
Falls	1,651	2,139	1,154
Unchanged	647	616	784
New Highs	13	26	32
New Lows	271	147	75

	Open	Latest	Change	High	Low	Est. vol.	Open Int.
S&P 500							
Sep	633.50	636.60	+4.50	636.85	633.15	133,021	177,979
Dec	–	638.10	–	–	–	718	7,916

	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
Nikkei 225							
Sep	21580.0	21460.0	-10.0	21590.0	21340.0	17,097	225,589
Dec	21450.0	21470.0	-60.0	21480.0	21450.0	309	7,952

Open interest figures for previous day.

Prices supplied by Telekurs.

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.
PLEASE NOTE: CANADIAN PRICES FOR FIRST EDITION ARE PRE-CLOSE

FT FREE ANNUAL REPORTS SERVICE
You can obtain the current annual/interim report of any company annotated with ♣. Please quote the code FT2705. Ring 0181 770 0770 (open 24 hours including weekends) or fax 0181 770 3822. If calling from outside UK, dial +44 181 770 0770 or fax +44 181 770 3822. Reports will be sent on the next working day, subject to availability.

TOKYO - MOST ACTIVE STOCKS: Wednesday, July 17, 1996

	Stocks Traded	Closing Prices	Change on day
Toshiba Corp	6.5m	720	-15
Mitsui Matushima	5.4m	602	+31
NKK Corp	4.5m	300	
Kawasaki Steel	4.5m	375	-3
Nomura Secs	4.2m	1930	-30
Mitsubishi Hvy	3.9m	912	
Bk Tk-Mitsubishi	3.1m	2310	+20
Kanematsu Corp	3.0m	895	-6
Kobe Steel	3.0m	290	
TYK Corp	2.7m	1050	-30

3:30 pm July 17

NEW YORK STOCK EXCHANGE PRICES

1996 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
23¾	17¾	AAR	0.48	2.5	18	543	19	18⅝	18⅞	+½
46⅛	36⅛	AMP	1.00	2.7	18	4892	37¼	36⅞	37	
97½	69	AMR			20	6980	81¾	79⅞	81⅛	+2⅛
50½	37⅜	ASA	1.80	4.6	26	123	39¾	39⅜	39⅜	-⅛
44⅞	38⅛	AbbotL x	0.96	2.2	18	12019	43¾	42¾	43	-⅜
17¾	12¼	AbitibiPr	0.40	3.1	8	388	12⅞	12¾	12⅞	+⅛
40⅜	27	ABM Ind	0.70	1.8	19	111	38	37⅞	37⅞	
18⅝	13⅞	Acptncain			47	55	18	17⅝	18	+¼
50⅜	37¾	ACE Ltd	0.56	1.3	10	596	43⅛	42	42¼	+½
9⅞	9⅛	ACM Gvt In	0.90	9.2	8	100	u9⅞	9¾	9¾	-⅛
7⅞	6⅝	ACM GvOpp	0.57	8.3		15	6⅞	6⅞	6⅞	
7¼	6	ACM Gvt Sp	0.66	10.2		70	6½	6⅜	6½	+⅛
9⅛	8¼	ACM Gvt Sc	0.90	10.6		315	8½	8⅜	8½	
9½	8⅜	ACM Man	0.90	10.4		372	8⅝	d8⅜	8⅝	+¼
13⅞	6⅛	Acme Elect			43	184	7¾	7	7¾	+⅞
33⅝	27¾	Acordia	0.80	2.5	19	2	31⅞	31¾	31¾	-¼
21⅞	12	Acuson			60	1420	13⅝	13⅛	13⅜	+½
19½	17⅞	Adams Expr	0.48	2.6	0	128	18⅜	18¼	18⅜	+¼
21¼	10⅞	AdvMic			7	9787	12⅛	11⅝	11¾	
11⅛	8½	Advest Grp	0.16	1.6	7	33	10	9⅞	10	+⅛
25⅛	9⅛	Advo Inc	0.10	1.0	53	236	9⅝	9⅜	9⅝	+⅛
50⅝	41⅛	Aegon	1.19	2.6	14	57	46¾	46⅜	46½	-⅜

Continued on next page

3:30 pm July 17

NYSE PRICES

Continued from previous page

[illegible]

- T -

[illegible]

- U -

[illegible]

- V -

[illegible]

- W -

[illegible]

- X - Y - Z -

[illegible]

AMEX PRICES

4 pm close July 17

[illegible]

NASDAQ NATIONAL MARKET

4 pm close July 17

[illegible]

AMERICA

US stocks lifted by strong earnings data

Wall Street

A spate of strong earnings reports and some bargain hunting in the technology sector helped US shares to rebound at midsession from the sharp weakness of recent days, writes *Lisa Bransten in New York*.

Intel helped to spark some of the buying in the technology sector with its announcement of strong second-quarter earnings, made after the market closed on Tuesday.

In early afternoon trading, the Nasdaq composite, with about a 40 per cent technology shares content, was 27.72 up at 1,081.19, putting it on course for its first positive finish in more than a week. The Pacific Stock Exchange technology index added 2.9 per cent.

Shares in Intel rose $3¾ to $72¾ and the company's good news created optimism about the prospects for computer makers. Hewlett-Packard added $2⅛ at $43¾, Dell Computer was up $2⅛ at $47⅞ and Gateway 2000 rose $3⅛ to $33⅞.

Blue chip shares in the Dow Jones Industrial Average shot higher on the opening bell, climbing nearly 72 points in the first 15 minutes of trading. By early afternoon, however, the index had surrendered a good part of its gain.

At 1 pm, the Dow was showing a rise of 29.22 at 5,387.98. The Standard & Poor's 500 gained 5.35 at 633.72 and the American Stock Exchange composite climbed 11.27 to 536.87. NYSE volume was 306m shares.

General Electric, the only Dow component to report earnings yesterday, rose $2¼ to $83 although its second-quarter earnings of $1.15 a share were only a penny ahead of analysts' expectations.

Ford Motor, the last of the Big Three car companies to report results, beat earnings by a wider margin, sending its shares up $1⅛ to $31⅝. Chrysler and General Motors, which had already posted strong earnings, also gained, moving ahead $1 to $29 and $1⅛ to $48 respectively.

Time Warner and Turner Broadcasting rose after Federal Trade Commission staff agreed in principle to allow the companies to merge with certain conditions. Time added $2¼, or 7 per cent, at $35½ and Turner gained $2, or 8 per cent, at $26.

Canada

Toronto gave up most of an early rise by midsession and the TSE 300 composite index was just 0.41 higher by noon at 4,921.00 in volume of 31.9m shares.

Among heavily traded stocks, Bombardier, the diversified aircraft and commuter railcar maker, firmed 10 cents to C$18.10.

High-technology stocks put in a strong performance. Newbridge Networks appreciated C$3.25 to C$74.25, while PC Docs Group International added C$1.75 at C$30.35.

Pacific Forest Products was holding steady at C$17 after reporting weaker than expected earnings.

Latin America

MEXICO CITY had reversed its early strong gains by midsession as the IPC index showed a loss of 5.26 at 2,933.13.

However, brokers commented that the selling was not exceptionally heavy, and that most could be linked to profit-taking.

SAO PAULO was barely changed by midsession, with the Bovespa index standing 193 points up at 63,137, while the Merval index in BUENOS AIRES was similarly rangebound, up 1.39 at 544.66.

SOUTH AFRICA

Industrials in Johannesburg staged a mild recovery in cautious trade, with dealers saying the market was tracking world bourses, especially Wall Street.

The overall index gained 55.8 at 6,684.2, while industrials strengthened 109.1 to 7,897.1. A London-based analyst described sentiment in the market as being broadly positive for the industrial stocks.

However, a stronger rand saw gold shares drift lower and the sector index declined 36.3 to 1,808.

De Beers softened 25 cents to R140.75, but Anglo American Industrial Corporation forged ahead R7.50 to finish at R156.

EUROPE

Milan finds support in telecoms sector

The firmer trend in domestic bonds enabled MILAN to call a halt to the 7.7 per cent loss of the previous eight sessions, and the Comit index finished 5.20 ahead at 616.20.

Most blue chips were higher. Stet rose L85 to L4,764 after the government finally approved a new telecoms and television watchdog, opening the way for the privatisation of the state-controlled telecommunications group.

Mediaset, the television and advertising group which was listed on Monday, dropped 2.8 per cent in immediate response to news that, from January 1997, television advertising time would be regulated under the new government bill.

The shares retreated to a low of L7,370 but steadied on news that the company would be allowed to bid for a third Italian mobile phone licence.

By the close the shares were up L47 at L7,628.

Eni lost L64 to L6,998, after Tuesday's news that a second tranche of the group would be sold in October.

Pirelli moved forward L69 to end at L2,405 on speculation that its cable division planned to restructure its French operation.

ZURICH extended its losses into a fifth straight session as the strengthening Swiss franc pressured the large exporters.

The SMI index finished 21.9 lower at 3,656.2, but in thin turnover.

Ciba gave up just SFr1 to SFr1,492 and Sandoz was SFr7 softer at SFr1,400.

After the market closed, the European Commission cleared their planned merger into Novartis after the companies agreed to grant licences for methoprene, an animal anti-parasite product.

Clariant, which reported flat half-year sales, receded SFr9 to SFr421.

Nestlé lost SFr25 to SFr1,405, still weighed down by its disappointing results, and news from Brussels that a European women's group had threatened a widespread boycott of Perrier products in protest at an advertising campaign that it considered sexist.

FRANKFURT rose during the floor session as the Dax index ended up 37.40 at 2,497.19. The Ibis was flat, closing at 2,497.69. Turnover came to DM8bn.

Munich Re was one of the day's highlights on news that it would become a constituent of the Dax index from September 23.

The stock rose DM82, or 1.9 per cent, to DM3,319.

Telekom is the other issue to be included, with Metallgesellschaft and Continental being excluded.

Metallgesellschaft rose DM1.55, or 6.2 per cent, to DM26.50 and Continental rose 63 pfennigs, or 2.7 per cent, to DM23.63.

In the Ibis, the two stocks finished respectively at DM26.46 and DM23.48.

PARIS rebounded in line with the Continental trend. The CAC-40 index made 5.60 to 1,935.11, after a high of 2,010.67.

Turnover was a modest FFr4.1bn, reflecting continued investor caution in these uncertain times.

SGS-Thomson Microelectronics, the French/Italian semiconductor maker, advanced FFr9.60 to FFr164.10 after reporting a rise in second-quarter profits of 44 per cent.

AMSTERDAM featured Stork as the industrial systems company said it was paying Fl 302.5m for the Fokker Aviation unit of Fokker, which was declared bankrupt earlier this year. Stork made a gain of Fl 1.30 to [illegible] as the Aex index lost 1.16 to 527.11.

Elsewhere, Philips recovered from recent losses to firm Fl 1.20 to Fl 51.50 but Royal Dutch slid Fl 3 to Fl 251.80.

ISTANBUL dived as equities sought new support in a market starved of cash, and amid uncertainty over the new Islamist-led government's economic policies.

The composite index fell 2.5 per cent to close at 56,663.96. Losses this week have reached 6.3 per cent.

Investors remained tense amid suspicions over the coalition's ability to tackle the country's very heavy budget deficit, brokers said.

COPENHAGEN fell moderately, with a hoped-for rebound failing to materialise. The KFX index dipped 0.57 to 114.98.

Interest focused on blue chips such as TeleDanmark, which recently had its 1996 forecasts downgraded by Lehman Brothers.

In the report, which followed a profits warning from the company, Lehman lowered its net income forecasts from DKr3.2bn to DKr2.9bn for the 1996 year and from DKr3.5bn to DKr3.2bn for 1997.

TeleDanmark ended DKr4 cheaper at DKr278.

BUDAPEST retreated for the seventh consecutive session as the BUX index fell 62.51 to 3,015.38. Turnover was Ft1.2bn.

The session's most active stock was BorsodChem, a chemicals company, off Ft125 to Ft2,365.

WARSAW found little in the way of excitement from a cut in interest rates and the Wig index declined 1.7 per cent to 12,875.2.

The National Bank of Poland announced a cut of one percentage point on Tuesday after the market had closed.

Among the financials, Bank Przemyslowo-Handlowy was off 1.7 per cent at 172 zlotys and Bank Rozwoju Eksportu lost 1.4 per cent to 73 zlotys.

PRAGUE followed the trend lower, with the PX50 down 2.4 at 540.5. SPT Telecom was the only riser, up Kr10 to Kr3,370.

Written and edited by Michael Morgan, John Pitt and John Dludlu

FT-SE Actuaries Share Indices

Jul 17	THE EUROPEAN SERIES							
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1624.35	1623.05	1623.60	1624.03	1624.61	1625.12	1625.14	1624.61
FT-SE Eurotrack 200	1654.53	1653.11	1653.65	1656.06	1656.61	1657.36	1657.65	1653.76

	Jul 16	Jul 15	Jul 12	Jul 11	Jul 10
FT-SE Eurotrack 100	1624.77	1664.07	1675.33	1689.00	1689.93
FT-SE Eurotrack 200	1698.90	1706.17	1716.71	1730.08	1732.35

Base value 1000 (26/10/90) High/day: 100 - 1627.02; 200 - 1658.77 Low/day: 100 - 1622.88 200 - 1652.85 † Partial.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Market	No. of stocks	Dollar terms: July 12 1996	% Change over week	% Change on Dec '95	Local currency terms: July 12 1996	% Change over week	% Change on Dec '95
Latin America	(247)	535.68	-0.8	+13.5			
Argentina	(31)	872.78	-3.3	+9.0	534,769.96	-3.3	+8.8
Brazil	(68)	386.05	+2.5	+26.4	1,451.67	+2.5	+30.7
Chile	(43)	748.60	-1.7	+0.0	1,234.05	-1.8	+1.2
Colombia[1]	(15)	597.15	-0.9	-0.2	1,120.26	-1.5	+6.7
Mexico	(64)	500.87	-3.2	+10.5	1,649.39	-3.1	+8.5
Peru[2]	(21)	223.15	-1.7	+13.1	333.26	-1.7	+20.0
Venezuela[3]	(5)	505.85	-1.0	+51.3	5,469.76	-0.8	+109.6
Asia	(632)	260.66	-1.2	+12.3			
China[4]	(24)	57.63	-0.4	+6.5	60.50	-0.5	+6.5
South Korea[5]	(145)	108.42	-2.0	-15.5	113.57	-1.9	-11.3
Philippines	(35)	317.55	-5.0	+22.3	401.74	-5.0	+22.2
Taiwan, China[6]	(93)	141.84	-4.2	+25.8	146.72	-4.2	+27.0
India[7]	(79)	99.52	-2.3	+23.8	125.12	-1.2	+24.7
Indonesia[8]	(44)	117.58	+1.1	+7.2	149.01	+0.7	+9.4
Malaysia	(123)	321.12	+0.6	+18.4	295.48	+0.6	+16.3
Pakistan[9]	(25)	281.93	+1.5	+16.2	451.63	+1.8	+19.8
Sri Lanka[10]	(5)	87.34	-2.5	-6.5	117.51	-2.3	-2.8
Thailand	(72)	336.78	-4.6	-10.4	339.94	-4.6	-9.6
Euro/Mid East	(238)	141.03	-3.8	-0.4			
Czech Rep	(5)	72.62	-0.8	+20.8	65.68	-1.5	+23.5
Greece	(47)	248.32	+0.9	+2.0	399.35	+0.7	+3.2
Hungary[11]	(8)	167.34	-6.1	+70.0	303.05	-5.9	+87.3
Jordan	(8)	162.89	-1.5	-11.8	343.40	-1.5	-11.7
Poland[12]	(22)	703.67	-8.5	+65.0	1,204.73	-8.6	+82.0
Portugal	(26)	128.12	-0.8	+10.7	137.76	-1.1	+15.9
South Africa[13]	(63)	229.53	-3.6	-11.1	209.23	-1.8	+7.7
Turkey[14]	(54)	150.55	-6.0	+44.1	5,902.24	-5.4	+87.5
Zimbabwe[15]	(5)	370.55	-0.4	+34.8	540.11	-0.2	+43.2
Composite	(1117)	301.64	-1.6	+9.4			

Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 5 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10)Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993

The Hang Seng index, Hong Kong's stock market benchmark, is to undergo a shake-up next month, with the removal of Hong Kong Aircraft Engineering Co (Haeco), the aircraft maintenance company controlled by Swire Pacific, and Miramar Hotel and Investment, writes Louise Lucas in Hong Kong.

Their places are taken by First Pacific, the Hong Kong based marketing, distribution, telecoms and property company controlled by the Salim group of Indonesia, and Henderson Investments, the property investment company which, following a contested bid in 1993, controls Miramar. Henderson Investments becomes the third company controlled by tycoon Lee Shau-kee to make it into the Hang Seng index; property developer Henderson Land, the holding company, and Hong Kong and China Gas, the colony's dominant gas supplier, are already constituent stocks.

The switches are aimed at ensuring that the index is representative of the market, and is composed of stocks with large market capitalisations and high liquidity. According to HSI Services, which compiles the index, Haeco has a market cap of around HK$4bn and Miramar around HK$9bn, compared with the HK$17bn to HK$18bn boasted by each of their replacements.

HSI Services said the index would account for about 75 per cent of the total capitalisation of the companies listed on the colony's exchange, up from some 73 per cent. The Hang Seng index was last reshuffled in November 1994, when the imminent delisting of the Jardine group of companies, all of which were constituent index stocks, prompted a major shake-up.

In addition to the five companies in the Jardine stable, which delisted in two stages in December 1994 and February 1995 citing regulatory concerns, HSI Services took the opportunity to replace two underperformers, Lai Sun Garment and Winsor Industrial Corporation. These seven companies were replaced with a mix of property, hotel, media and electronics companies. First Pacific, which along with Henderson Investment joins the index on August 30, was a key contender for one of the vacated slots at that time.

ASIA PACIFIC

Foreign selling erodes advance in Nikkei

Tokyo

The overnight rebound on Wall Street helped to improve confidence, but earlier gains were eroded by late selling of blue chip exporters by overseas institutions, writes *Emiko Terazono in Tokyo*.

The Nikkei 225 average added a marginal 6.53 at 21,412.88 after touching 21,281.95 and 21,567.02. The index gained ground on bargain hunting in early trading as investors were encouraged by the rebound in the US. However, shares lost early gains as foreigners increased selling of international blue chips.

Volume totalled 290m shares, against 302m. Many investors were inactive ahead of congressional testimony by Mr Alan Greenspan, chairman of the US Federal Reserve Board.

The Topix index of all first section stocks shed 0.57 to 1,625.54, and the Nikkei 300 closed 0.05 off at 300.67. Declines led rises by 555 to 469, with 175 issues unchanged.

In London the ISE/Nikkei 50 index put on 0.59 at 1,438.13.

International blue chips in the high-technology and car sectors suffered from selling by foreigners. The yen's rise against the dollar also provided an incentive to take profits on companies which are most reliant on exports.

The decline in US high-technology shares weighed on Japanese counterparts, with Toshiba, the most active issue of the day, down Y15 to Y720 and Sony losing Y90 to Y6,900.

Profit-taking hit Honda Motor, which lost Y70 to Y2,640, and Toyota Motor retreated Y40 to Y2,570.

Banks, which had been sold on fears of higher interest rates, rebounded. Industrial Bank of Japan gained Y30 to Y2,510 and Sumitomo Bank added Y20 at Y2,010.

Brokers, however, came under selling pressure on fears of the negative effects of the stock market's recent sluggishness on earnings. Nomura Securities dropped Y30 to Y1,930 and Nikko Securities fell Y10 to Y1,100.

In Osaka, the OSE average dipped 75.90 to 22,601.05 in volume of 18.3m shares. Aoyama Trading, the men's suits maker, rose Y110 to Y2,980 on expectations of increased buying by individual investors.

Roundup

Heavy selling in Mr Rupert Murdoch's News Corp left SYDNEY to give up early gains and end slightly lower. News Corp slid 20 cents to close at A$6.66 after a report that the company was planning a $2.4bn takeover bid for New World Communications, of the US.

Brokers said uncertainty about how News Corp would fund an acquisition of New World was the main factor behind the stock's fall.

They also noted concerns that Mr Murdoch's hand might have been forced by New World's intention to make a takeover bid of its own, for King World Productions.

The All Ordinaries index ended at 2,096.1, down 4.5.

TAIPEI moved higher as bargain hunters chased prices. The weighted index rose 147.23, or 2.5 per cent, to 6,102.73. Turnover was T$45.14bn.

The financial sector gained 4.1 per cent, with China Life soaring by the daily 7 per cent limit, or T$3.50, to T$55 and China Trust jumping T$2.60, or 5.3 per cent, to T$51.50.

BANGKOK slipped in light trading, with Finance One one of the biggest losers as the finance company digested the finance minister's statement that he would not approve the acquisition of a 20 per cent stake in Thai Danu Bank.

Dealers said the news had hurt both Fini and TDB, and many analysts had revised down their earnings forecasts by between 10 to 20 per cent.

Fini lost Bt2 to Bt128 with 622,800 shares traded, while TDB fell Bt7 to Bt180 on volume of 89,000 shares. The SET index declined 0.71 to 89.12.

HONG KONG ran into late profit-taking which pulled the Hang Seng index down from a high of 10,784.59 to close 18.88 weaker at 10,609.10, in turnover that edged down to HK$5.7bn.

Cheung Kong Infrastructure, a spin-off of Li Ka-shing's Cheung Kong (Holdings), made a disappointing debut, closing at HK$12.75, against its initial public offering price of HK$12.65. Traders had expected the stock to top HK$13.00. Shares in Cheung Kong fell 50 cents to HK$62.25.

SINGAPORE's second-line stocks rebounded strongly and the Straits Times Industrial index climbed 24.58 to 2,204.09, as improved sentiment drew investors to Indonesian-linked stocks. Amcol jumped 17 cents to S$2.73, L&M rose 33 cents to S$2.16 and UFP posted a 42 cent rise to S$1.77.

BOMBAY gained 2.1 per cent as bulls tightened their grip on short sellers. The BSE-30 index rose 77.31 to 3,722.34 and the national bourse index 1.3 per cent.

● Seoul was closed.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FT-SE International and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS (Figures in parentheses show number of lines of stock)	Tue Jul 16 1996: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	Mon Jul 15 1996: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Dollar index: 52 week High	52 week Low	Year ago (approx)
Australia (80)	189.56	-2.4	180.42	130.91	147.05	159.27	-2.5	4.54	194.27	185.74	135.48	153.36	162.57	212.18	176.72	177.87
Austria (24)	180.18	0.2	171.50	124.43	139.76	139.71	-1.6	2.01	179.89	172.00	125.45	142.01	141.93	198.73	166.11	198.04
Belgium (27)	207.56	0.4	197.56	143.34	161.02	157.56	-1.2	4.23	206.76	197.63	144.15	163.17	159.45	215.81	190.06	[illegible]
Brazil (28)	179.67	-2.4	171.01	124.06	139.38	332.73	-2.4	1.96	184.36	175.93	128.36	145.30	340.88	189.70	123.97	144.48
Canada (120)	155.30	-0.7	147.82	107.25	120.48	154.27	-0.6	2.32	156.47	149.30	109.12	123.51	155.22	165.12	134.14	140.77
Denmark (30)	306.82	0.1	291.85	211.76	237.67	239.93	-1.7	1.91	306.41	292.97	213.69	241.88	243.96	309.01	276.89	283.05
Finland (23)	189.09	-1.1	179.98	130.59	146.69	181.02	-2.2	2.76	191.24	182.85	133.37	150.96	185.17	278.11	171.73	282.36
France (96)	189.42	-0.2	180.30	130.82	146.95	150.22	-2.0	3.30	189.69	181.56	132.43	149.90	153.36	196.39	167.70	188.31
Germany (59)	169.47	-1.3	161.31	117.04	131.47	131.47	-3.0	1.93	171.72	164.18	119.75	135.55	135.55	174.38	155.66	163.65
Hong Kong (59)	414.31	-1.4	394.35	286.13	321.41	411.52	-1.5	3.47	420.33	401.68	292.96	331.02	417.38	451.19	348.81	380.98
Indonesia (27)	202.43	-1.2	192.68	139.80	157.04	393.10	-1.3	1.58	204.94	195.94	142.92	161.78	392.87	-	-	-
Ireland (16)	270.21	-1.4	257.19	186.61	209.63	237.43	-2.0	3.61	274.04	262.01	191.11	216.32	242.37	290.82	235.66	241.02
Italy (59)	75.72	-1.5	72.07	52.29	58.74	95.06	-2.6	2.55	76.90	73.52	53.63	60.70	98.33	84.53	67.22	77.79
Japan (481)	148.95	-0.2	141.78	102.87	115.55	102.87	-1.2	0.74	149.28	142.73	104.11	117.84	104.11	164.68	107.76	151.72
Malaysia (107)	556.79	-0.7	529.96	384.52	431.94	533.20	-0.9	1.62	560.57	535.97	390.93	442.51	538.01	565.09	425.77	554.61
Mexico (18)	1116.00	0.5	1062.23	770.72	865.76	9347.77	0.7	1.42	1110.35	1061.62	774.35	876.50	9280.42	1325.85	791.99	1224.76
Netherland (19)	286.61	-0.7	272.80	197.94	222.34	219.14	-2.4	3.29	288.53	275.86	201.21	227.76	224.50	289.69	245.79	258.59
New Zealand (15)	79.26	-1.0	75.44	54.74	61.49	61.12	-1.4	4.44	80.02	76.51	55.81	63.17	61.98	84.71	75.94	84.71
Norway (35)	249.50	-0.8	237.48	172.31	193.56	217.28	-2.2	3.02	251.70	240.66	175.53	198.69	222.10	256.94	222.24	241.47
Philippines (22)	208.72	-1.4	198.66	144.14	161.92	272.36	-1.4	0.56	211.59	202.30	147.55	167.02	276.10	-	-	-
Singapore (44)	392.24	-0.3	373.34	270.89	304.29	256.15	-0.4	1.46	393.35	376.21	274.40	310.61	257.21	465.21	355.81	395.21
South Africa (44)	339.18	-2.6	322.84	234.24	263.13	328.53	-2.6	2.21	348.21	332.90	242.84	274.88	337.35	437.78	339.18	344.80
Spain (37)	174.68	-0.2	166.26	120.63	135.51	166.65	-1.7	3.50	174.25	167.23	122.02	138.12	169.50	183.85	145.15	153.95
Sweden (48)	340.78	-0.7	324.36	235.35	264.37	355.89	-1.5	2.54	343.62	327.97	239.21	270.78	342.06	360.77	280.13	286.19
Switzerland (37)	245.45	0.3	233.62	169.51	190.41	180.07	-2.1	1.59	244.59	233.85	170.57	193.08	180.12	252.34	191.24	202.63
Thailand (45)	158.79	-0.5	151.13	109.66	123.18	156.22	-1.1	3.11	160.29	153.25	111.79	126.53	158.04	193.95	146.74	183.19
United Kingdom (200)	229.63	-1.3	218.56	158.53	178.14	218.56	-1.3	4.25	232.72	222.51	162.29	183.71	222.51	237.49	216.52	221.31
USA (627)	255.28	-0.3	242.98	176.30	198.04	255.28	-0.3	2.22	255.98	244.73	178.50	202.06	255.98	276.47	224.83	226.39
Americas (793)	233.84	-0.3	222.38	161.36	181.25	196.49	-0.3	2.31	234.36	224.08	163.44	185.01	197.08	252.43	208.37	209.73
Europe (710)	206.42	[illegible]	196.47	142.55	160.15	178.20	-2.1	3.18	209.11	199.98	145.13	164.28	182.00	213.30	189.33	195.17
Nordic (136)	296.14	-0.6	281.88	204.52	229.74	255.10	-1.9	2.42	298.00	284.92	207.80	235.24	259.99	308.61	261.13	277.18
Pacific Basin (880)	161.36	-0.5	153.58	111.44	125.16	113.46	-1.2	1.21	162.10	154.98	113.04	127.96	114.87	177.01	148.86	162.58
Euro-Pacific (1590)	180.02	-0.6	171.35	124.33	139.66	138.00	-1.6	2.15	181.16	173.21	126.33	143.00	140.28	190.57	166.51	176.06
North America (747)	249.19	-0.3	237.19	172.10	193.32	248.60	-0.3	2.22	249.92	238.96	174.29	197.29	249.31	269.52	220.03	[illegible]
Europe Ex. UK (510)	188.66	-0.5	179.57	130.29	146.36	154.09	-2.2	2.56	189.57	181.35	132.27	149.72	157.84	194.86	169.65	176.47
Pacific Ex. Japan (399)	276.69	-1.4	263.36	191.09	214.68	238.60	-1.4	3.35	280.56	268.25	195.66	221.47	241.65	296.68	240.58	265.60
World Ex. US (1800)	181.13	-0.7	172.40	125.09	140.52	142.35	-1.6	2.15	182.36	174.35	127.17	143.95	144.68	191.55	167.36	177.07
World Ex. UK (2227)	201.32	-0.4	191.62	139.04	156.18	170.42	-1.0	2.01	202.18	193.30	140.99	159.60	172.10	213.05	185.61	188.62
World Ex. Japan (1946)	234.19	-0.6	222.90	161.73	181.68	220.81	-1.0	2.66	235.57	225.24	164.28	185.96	223.07	247.55	212.62	215.88
The World Index (2427)	203.82	-0.5	194.00	140.76	158.12	174.86	-1.1	2.22	204.66	195.87	142.86	161.71	176.72	214.95	188.48	192.58

CONSTITUENT CHANGE WITH EFFECT 17/7/96: Name change Euro RSCG to Havas Advertising (France). Latest prices were unavailable for this edition.

US prepares for chemical attack in Gulf

By Nancy Dunne in Washington

The Pentagon is preparing a sweeping initiative to protect US troops in the Gulf and other regions from weapons of mass destruction including chemical and biological weapons, mortar attacks and massive truck bombs.

Mr William Perry, the US defence secretary, yesterday briefed a large group of senior senators on his proposed Force Protection initiative, designed to defend US forces in Saudi Arabia, Bosnia, Turkey and other regions around the world.

"For years we have devised our force protection in response to the last threat or the last attack," Mr Perry said. "And yet, we see more significant attacks that are possible. Therefore, we want to get ahead of them and plan ahead."

Mr Perry said the Pentagon was taking seriously the stacks of intelligence reports it receives every week warning of new attacks on US troops, like last month's bombing which killed 19 servicemen in Dhahran, Saudi Arabia. "We understand that the threats – chemical, biological, very large truck bombs – (are) feasible," he said. "We also understand that the terrorists that are trying to drive us out of Saudi Arabia are capable of doing those."

He called the senators to the Pentagon yesterday for consultations because the effort will be "costly", he said. The threat can not be addressed "just by moving fences and just by putting more mylar [a chemical toughener] on glass. We have to make some fundamental changes – some drastic changes in the way we configure and deploy our forces."

The Pentagon is soon to announce a plan to shift a large number of troops in Saudi Arabia to protect them against terrorist attacks. Mr Perry, who visited Saudi Arabia shortly after the June 25 bomb blast, said the military was to reconfigure the US deployment this summer.

All the 3,000-4,000 US forces in Operation Southern Watch, the deterrence mission in Saudi Arabia, are candidates for a move. "We'll have to make a balance between the ability to do the mission adequately and the desire to get more force protection," he said.

Planners are studying the forces in Riyadh in particular where the US military is supporting the Saudi National Guard and training the military. It would be difficult to continue these missions if the troops are moved out of the Saudi capital.

The official Saudi Press Agency reported that Prince Sultan, the Saudi defence minister, said Riyadh did not favour moving troops out of the capital. However, a defence department spokesman said on Tuesday that it was the Saudis who first recommended moving some US troops to more remote locations.

Kazakhstan's oil business *vs* the elements

Pipeline deal sets the stage for tapping energy from hell, write **Sander Thoenes** and **Anthony Robinson**

The desert surrounding the oilfield on the northern shores of the Caspian sea is as barren as the moon. In winter wolves roam the snow-covered plains; in summer poisonous sand adders – nicknamed "two-step adders" because their victims can take only a few steps before the venom kicks in – slither across the sand. If the ferocious mosquitoes are not biting for a day, it is because a sand storm has chased them away.

Oil crops up in the most inconvenient spots around the globe – and the Tengiz oilfield of western Kazakhstan, from which Europe is likely to get up to 70m tons of oil a year in the early 21st century – is true to form.

Nature has also stored Tengiz oil at considerable depths, under high pressure and with 20 per cent content of hydrogen sulphide, an invisible but lethal gas. The level of the Caspian Sea, furthermore, now only a few hundred meters from the nearest wells, is rising. When the winds are in the wrong direction the waves lap against the flimsy sand dike built decades ago by Soviet-era oilmen to protect the field they had discovered.

But now the oilmen seeking to release the oil and ship it to western markets are employed mainly by western oil companies who moved in over the last five years to exploit a resource which the Soviets had neither the money nor the expertise to develop.

"I love it here," says Mr Nick Zana, director general of Tengizchevroil (TCO), a joint venture between Chevron, Mobil and the Kazakh government, which has been pumping oil at the Tengiz oil field since 1993. "It's not all roses. But the sunsets are great. I've been more frustrated in other places and this is a giant oil field. When it's up and running, TCO will be one of the biggest oil companies in the world – by itself."

This is the attitude which helped western oil producers survive the difficult years between 1991 and 1995 when they were bogged down by Russian obstructionism and bureaucratic hassles and were forced to put projects on hold. Major oil companies which were not already committed to Kazakhstan restricted their presence to small exploration projects, and others kept out altogether.

The main problem was strategic. The only existing export pipeline from northern Kazakhstan runs across southern Russia to the Black Sea port of Novorossiysk. The powerful Russian oil and gas lobbies kept access to a trickle, blaming capacity limitations in the busy pipeline which carries Russian oil from the Urals region and beyond. Without free access to western markets TCO has been unable to export more than a few million tons of oil. Last year, daily production dipped as low as 5,000 tons compared with the peak of 90,000 tons daily planned for the next decade.

Since April however prospects have been transformed. The governments of Russia, Kazakhstan and Oman agreed to offer oil producers 50 per cent of their stake in the Caspian Pipeline Consortium. The CPC was formed to build a 750km-long dedicated pipeline from Tengiz to Novorossiysk. On April 27, Chevron and Mobil together with British Gas, Italy's Agip, two smaller US and Kazakh companies and two big Russian companies, Lukoil and Rosneft, pledged to finance the pipeline in return for guaranteed access.

The agreement was followed by a flurry of related deals. Mobil bought half the Kazakh government's remaining stake in TCO for around $1.1bn, Royal Dutch Shell pledged to finance Rosneft's share and Vitol, a Dutch oil trader, bought a 90 per cent stake in Kazakhstan's biggest oil refinery at Chimkent in the far south of this enormous country, half the size of the US.

Detailed negotiations over the pipeline contracts are now under way. But the crucial element which unblocked the whole deal was the willingness of the western companies who will foot the bill to concede a total 44 per cent stake in the project to the Russian government and the two Russian oil companies. By so doing the oil companies recognised Russia's ability to block indefinitely a project it was unable to develop alone.

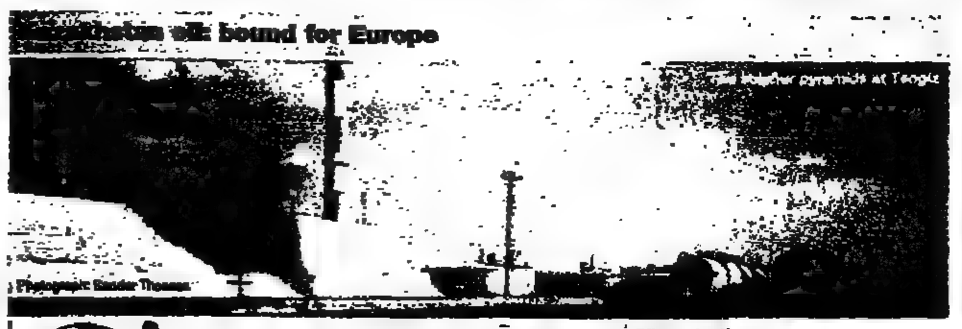
Meanwhile TCO has abandoned hopes of selling all its oil on western markets for a few years and is looking for short-term alternative markets to finance a rise in annual production capacity to 8.5m tons by the end of 1998.

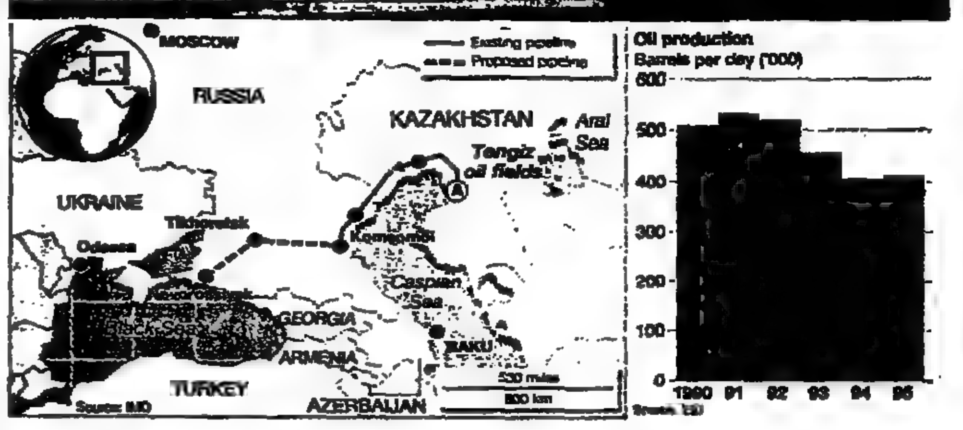
Much ingenuity is involved. Crude now goes by pipeline to Lithuania, by train to Finland and there are plans to send some by barge up the Volga river and down the Don to the Mediterranean. The Kazakh government meanwhile plans to ship its share of oil production to northern Iran in exchange for Iranian crude which will be delivered to Kazakh clients in the Gulf. The US government, which forbids US companies to trade with Iran, has chosen to turn a blind eye to what their Kazakh partners get up to.

Meanwhile TCO is selling its natural gas to a nearby power plant, flaring off excess liquid gas – and working hard to find a market for the huge quantities of sulphur removed from the oil to make it transportable without corroding the pipelines. For every 10 tons of oil, TCO produces one ton of sulphur. Thousands of tons of the bright yellow powder are piled up like a neon pyramid outside the processing plant, although one creative marketing manager recently bartered some sulphur for car tires.

Mr Zana hopes that Russia will allow more Kazakh oil through its pipelines once the CPC construction contracts are signed later this year. "Pipelines are the only economic way. Other means of transportation are simply stop-gap measures. They cannot ensure Tengiz's long-term growth," he says.

Kazakhstan oil: bound for Europe





US seeks target for reducing greenhouse gases

By Frances Williams in Geneva

The US yesterday called for a *binding global target for reducing* emissions of greenhouse gases that are warming the earth's atmosphere, but declined to propose a specific target or time for its achievement.

The US statement, made to the *second conference of parties* to the United Nations climate change convention, was welcomed by environmentalists but criticised by the energy lobby, which has been campaigning hard to prevent countries agreeing tough *action to restrict global* warming.

Mr Timothy Wirth, under-secretary for global affairs at the US State Department, told fellow ministers that the US wanted a "realistic, verifiable and binding medium-term emissions target".

However, he said the targets proposed so far, the most ambitious being for a 20 per cent cut in greenhouse gas emissions from 1990 levels by 2005, appeared to be "neither realistic nor achievable".

Mr Wirth also rejected proposals by the European Union and others for mandatory policies and measures to be taken by all industrialised countries to reduce emissions, mostly carbon dioxide.

He said countries should be able *to decide for themselves* how best to achieve the target, including mechanisms such as joint implementation (in which rich countries are credited for helping poor countries reduce their emissions) and tradeable emission permits.

The two-week conference, which ends on Friday, aims to pave the way for an accord on reducing greenhouse gases into the next century, due to be endorsed late next year when the convention's 160-odd members meet in Kyoto, Japan.

However, wide divergences remain on how targets should be framed and implemented, and how tough they should be.

Australia, a big fossil-fuel producer, with support from Japan and some other industrialised countries, has campaigned *hard for differentiated* targets that take national circumstances into account.

Mr Robert Hill, Australia's environment minister, also made clear yesterday that his country could not support the long-term goal advocated by the EU – an eventual halving of greenhouse gas emissions in order to keep the projected global temperature rise to less than 2 degrees Celsius.

Earlier this week, a small group of developing-country energy producers, including China, Saudi Arabia, Iran and Nigeria, blocked consensus on a resolution that would have endorsed as "a basis for urgent action" the latest report from the authoritative Intergovernmental Panel on Climate Change (IPCC).

The report, the work of more than 1,000 scientists, identified for the first time a "discernible" human influence on climate.

Portugal and its old colonies set up commonwealth

By Peter Wise in Lisbon

Leaders of the world's seven Portuguese-speaking nations gathered in Lisbon yesterday to launch a lusophone commonwealth to expand their diplomatic, cultural and economic influence.

Angola, Brazil, Cape Verde, Guinea-Bissau, Mozambique, Portugal and São Tomé and Principe said they were creating the Community of Portu*guese Speaking Countries* (CPLP) as a means of improving co-operation in the pursuit of common interests.

President Jorge Sampaio of Portugal suggested that giving official status to an international community united by *Portuguese* – a language shared by almost 200m people – would also diminish the cultural ascendancy asserted by Britain and France through their commonwealths.

The summit meeting, held close to the quays from where *Portuguese navigators* set out on voyages that led to the colonisation of Brazil and parts of Africa, Asia and India, was described by several leaders as the start of an historic new relationship.

But the creation of the *CPLP, first suggested* a decade ago, also reflects efforts by Portugal and Brazil to bolster their prestige, *diplomatic* weight and economic credibility by trying to assert a wider cultural influence.

The new organisation will not entail setting up any special trading or currency zone or easing immigration restrictions. *Its most visible* actions will be diplomatic, including expected backing for Portugal's candidacy to be elected to the UN Security Council for two years *from* 1997.

"Portugal will count for more in the European Union because of the *CPLP," Mr* António Guterres, Portugal's Socialist prime minister, said yesterday. Brazil seeks to strengthen its position in Latin America, where Spanish is dominant, and will draw on support from the group in its bid to be made a permanent member of the United Nations Security Council.

The threat to Portugal's influence in its former colonies was made clear last year when Mozambique became a *full* member of the English-speaking Commonwealth. The impoverished West African nations of Guinea-Bissau and São Tomé and Principe have also moved closer to La Francophonie, the French-language community of almost 50 countries.

Despite being the former colonial power, Portugal is overshadowed within the CPLP by the size and economic might of Brazil, with 162m inhabitants. The two countries are inclined to compete rather than co-operate for a role in developing the economies of the five African members of the new community.

Mr Aníbal Cavaco Silva, a former Portuguese prime minister, acknowledged yesterday *that the idea of the CPLP* might have been rejected by the African members as "neo-colonialist" if Brazil had not played a leading role in its creation.

The group is to make a common diplomatic effort on the subject of East Timor, where the Portuguese language and culture is central to a resistance *movement opposing* Indonesian rule.

Leaders attending the summit meeting appealed *for* self-determination and respect for human rights in the former Portuguese colony, officially annexed by Indonesia 20 years *ago yesterday.*

One of the CPLP's first tasks will be to consider granting East Timor, as represented *by* resistance leaders, observer status in the new group. Portugal also seeks to preserve the Portuguese language and culture in *Macao, which is due to* be transferred to China in 1999.

INTERNATIONAL NEWS DIGEST

Sumitomo says it is co-operating

Sumitomo said yesterday it had received no official requests from UK investigators for files relating to trades by Mr Yasuo Hamanaka, the senior trader blamed by the Japanese trading house for copper market losses of $1.8bn.

"We had meetings with British and US investigators last month and told them we are ready to fully co-operate in their investigation," said a Sumitomo official who was responding to yesterday's Financial Times report that the group had refused to give the foreign investigators access to files. "We are fully and actively co-operating with the authorities."

Japan's Ministry of International Trade and Industry, which supervises trading houses, also said it was willing to help UK and US authorities with the investigation, but so far no requests for assistance had been received.

The ministry said it had no jurisdiction over Japanese trading houses' commodity operations in overseas markets, such as the London Metal Exchange. Only if a company was suspected of price manipulation when trading in Japan could the ministry take action. *Ken Gooding, London*

Israeli strikers in cuts protest

Half a million workers went on strike across Israel yesterday in protest at plans by Mr Benjamin Netanyahu, the prime minister, to cut at least Shk4.9bn ($1.56bn) from next year's budget. *Activity at banks, government offices, and transport* companies came to a halt for 10 hours, while hospitals and ambulances worked with skeleton crews. The strikes also closed the Tel Aviv Stock Exchange, where shares had suffered a two-day plunge that traders blamed on high interest rates.

The Histadrut, the main labour organisation which called the strikes, said the unions were forced to act to drive home the painfulness of the budget cuts.

"We are not going to be the victims of the economic programme of the government," said Mr Amir Peretz, the *Histadrut chairman, at a demonstration of thousands outside* the parliament building.

The Histadrut, which represents about 1m workers, has complained that the planned budget cuts will hurt the working class, the elderly, and children. Sectors hardest hit would be education, transport, medical subsidies and soldiers' pensions. The strike comes at a time when Mr Netanyahu has been depending on optimism over his plan for economic *reform to offset concerns about his* hawkish positions on Middle East peace. *Ilene Prusher, Jerusalem*

France cancels Gabon debt

France has cancelled FFr400m ($77.5m) of Gabon's $4.7bn accumulated debt in a move which coincides with President Jacques Chirac's visit to the oil-producing West African state. In return, Gabon, *a former French colony, has agreed to invest* an equivalent sum in infrastructure and sanitation projects to be carried out by the private sector.

The French president's African trip – he is due in Congo today – is providing him with a new opportunity to portray himself *as a friend of the* underprivileged and a *strong* opponent of further cuts in industrialised countries' aid budgets. *David Owen, Paris*

Uganda lays blame on Sudan

The Ugandan government yesterday accused neighbouring Sudan of masterminding weekend attacks by Christian fundamentalist rebels that claimed the lives of more than 100 refugees and sent 2,000 more fleeing for their lives. "It is clear the rebels were executing a mission on behalf of the Sudan, which has in the past stepped up its support for the destabilisation of northern Uganda. . . ," said Mr Amama Mbabazi, *the defence minister.* *Reuter, Kampala*

Anti-smoking suit denied legal aid

By John Mason, Law Courts Correspondent

A legal action which could have left the UK tobacco industry paying billions of pounds in damages to smokers was blocked yesterday after the Legal Aid Board, which grants public funds to needy litigants, announced it would not use public money to fund the case.

The action, in which 300 people suffering from lung cancer and other smoking-related diseases are suing five leading tobacco companies, will now be dropped unless private money can be found to fund it.

The £15m ($23.4m) lawsuit, brought against Imperial Tobacco, Rothmans, British and American Tobacco, Gallaghers and Philip Morris, is viewed as by far the most important smokers' litigation in the UK. If it went to court and succeeded, it could open the door to thousands of similar cases. Lawyers acting for smokers claim damages could then approach £10bn, although this figure is disputed by some in the industry.

Announcing its decision, the Legal Aid Board said the case failed to meet the criteria for public funds being used, including its prospects of success in court. An official denied the decision was prompted by attempts to restrain legal aid spending.

Although the smokers' lawyers were paid some £100,000 to carry out preliminary work, the board did not consider the case strong enough to justify a legal aid bill likely to run into several millions of pounds.

The decision was welcomed by the tobacco companies being sued.

BAT said the decision confirmed the company's view that the claims had insufficient legal basis. Legal actions had been brought against tobacco companies in different countries for 40 years and none had yet succeeded, it said.

Mr Martyn Day, a solicitor acting for the smokers, said the case could only proceed if lawyers worked on a "no-win, no-fee" basis or if alternative funding was forthcoming.

ASH, the anti-smoking pressure group, said it would launch an appeal for funds to continue the action against the tobacco companies.

Ms Pamela Furness, its chief executive, said of the decision not to grant legal aid: "It is clear that the cost of funding such a gargantuan task was just too big, especially in the light of the cutbacks the board is having to face".

Shares in BAT rose 13p to 498p.

Market report, Page 26

Aircraft partners resolve work row

By Bernard Gray, Defence Correspondent

Two critical problems in developing the £35bn ($54.6bn) four-nation Eurofighter have been largely resolved, clearing the way for an inter-government agreement on production of the aircraft.

Difficulties with the radar and in developing the flight computer network, which keeps the aircraft stable while manoeuvring, have slowed development.

Both problems stemmed from the way in which work was divided between different companies and were resolved after British Aerospace was appointed to co-ordinate the work. Eurofighter is now expected to feature in an aerobatic display in September at an air show near Farnborough, 60km south-west of London.

The governments involved – the UK, Germany, Italy and Spain – are now expected to authorise £4bn of investment in the tooling and production lines needed to manufacture the aircraft from September. Production costs have been informally agreed between the manufacturers and governments, with prices lower than had been anticipated.

A solution to the technical problems of the aircraft and agreement on production pricing follows resolution of a dispute between the UK and Germany on how production work was shared out.

Britain had hoped to make an announcement on Eurofighter production with the package of equipment orders to be revealed before parliament rises next week. But it will now wait for its partners to complete their preparations and for the aircraft to pass performance standards before making an announcement.

The total value of production of the aircraft is likely to be about £26bn over the next 15 years. Added to the £9bn spent on development, the programme cost is likely to reach about £35bn for 600 aircraft. The UK will have a £9bn share of the production work.

UK NEWS DIGEST

Fresh fears for inflation target

The Chancellor of the Exchequer yesterday insisted that he was still committed to his inflation target as official documents showed that he over-ruled the Bank of England – the UK's central bank – in cutting interest rates last month.

However, his comments came as the split between the chancellor, Mr Kenneth Clarke, and Mr Eddie George, the governor of the Bank of England, fuelled concern about the direction of monetary policy.

The split was revealed in the minutes of the monetary meeting last month, at which the Chancellor reduced interest rates from 6 per cent to 5.75 per cent.

City of London economists fear this decision, taken against the governor's advice, suggests that the chancellor's desire to create a "feel good" factor before the next election could risk the longer term inflation targets.

However, a surprise fall in wage growth in data published yesterday provided fresh ammunition to Mr Clarke's claim that inflation pressures remain subdued.

Gillian Tett and Graham Bowley, London

■ NORTHERN IRELAND

Violence discourages investors

The return of intercommunal fighting in Northern Ireland has prompted potential investors to look elsewhere, the UK government said yesterday. Baroness Denton, the British minister responsible for the region's economy, warned that it was "at risk of losing the gains we made last year".

She said one leading non-UK company had indicated that it was no longer considering Northern Ireland as the possible site for a new factory because of last week's violence. While declining to identify the company, she said she was "surprised we haven't had more".

Baroness Denton will be in the US next week, hoping to provide reassurances to pension funds expected to take part in a planned conference in Belfast in September. She will also listen to the concerns of US companies whom Northern Ireland want to attract to an investment conference in Pittsburgh in October, sponsored by the Clinton administration.

FT Reporters in Belfast and London

■ ACCOUNTING

Derivatives 'must be disclosed'

Big companies would have to disclose for the first time details about derivatives and other financial instruments – and show them at their current value in annual accounts – under radical plans from the UK's accounting standards regulator. The Accounting Standards Board move on disclosure is broadly in line with new rules in other countries including the US and are likely to win widespread support.

"At present many of these derivatives are not shown in a balance sheet at all – or are shown at a figure which fails to reflect their true significance," said Sir David Tweedie, chairman of the standards board.

The board's tentative proposals published today in a discussion paper are designed to lead to a new code on disclosure by 1998. The more controversial plans to mark all financial instruments to market – show them at their current value – are unlikely to form a new standard until the next century. Non-listed companies would escape most of the requirements.

Mr Gerry Acher, head of audit at KPMG, the accountancy firm, said they should be "adopted voluntarily without delay" by leading companies.

Jim Kelly, London

Lex, Page 12

Compensation dispute delays cattle slaughter

By Alison Maitland

An internal government row over compensation for farmers has forced a delay in legislation for the slaughter of 120,000 cattle. It has thrown into doubt a timetable by the prime minister, Mr John Major, for lifting the European Union export ban.

Farmers and MPs were taken by surprise yesterday when Mrs Angela Browning, a junior agriculture minister, announced that the legislation would not be set down until after parliament returned from its summer break in October.

The delay is understood to have been caused by Treasury opposition to paying farmers the full replacement value for slaughtered cattle.

Mr Douglas Hogg, the agriculture minister, is insisting farmers will only back the controversial slaughter if compensation is generous. But the Treasury is opposing the estimated £200m ($312m) expense and pressing for compensation based on market value – thought to be a little over half the cost.

Mrs Browning said on a radio programme today: "It's most unlikely now that the debate will take place this side of the recess."

The government had previously indicated the necessary legislation would be set down before the recess next week.

Even if it goes through in mid-October, there is now doubt the slaughter would begin until November at the earliest. Then it could take weeks of EU procedures to approve a lifting of the ban.

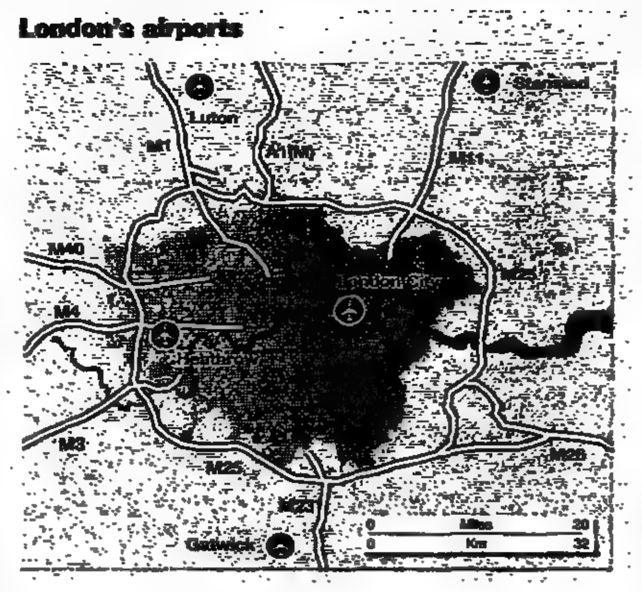
After the Florence summit last month, Mr Major pledged the UK would be in a position to see almost all elements of the EU ban lifted by November. Earlier this month, Mr Hogg said he hoped Britain would have all its measures "in place by September".

The government says the slaughter scheme will not start until it has cleared the backlog of cattle over 30 months' old, which are being destroyed under the government's separate cull programme. Mrs Browning said she hoped this would be achieved "by the end of October" – later than previous ministerial forecasts.

The agriculture ministry insisted Mr Major's timetable was still on course and said preparations for the slaughter could begin soon.

The National Farmers Union was last night "pushing for clarification" of the delay. Sir David Naish, the president, said: "I'm not going to tell my members they have to co-operate unless parliamentary backing is given."

London's airports



Ownership challenged

The opposition Labour party is considering radical proposals to loosen BAA's grip on London's three biggest airports – including putting out to tender the proposed new Terminal 5 at Heathrow, George Parker writes.

The party is also examining the possibility of forcing BAA to sell Stansted and possibly Gatwick, to create more competition among airports in the south-east of England.

Labour remains concerned over BAA's dominance in the sector, in spite of Tuesday's report by the Monopolies and Mergers Commission which said the current set-up was not contrary to the public interest.

Lords condemn EU plans for takeover harmony

By Ross Tieman

European Commission proposals to harmonise company takeover regimes across Europe are ill-conceived and should be opposed by the UK government, a select committee from the House of Lords – parliament's unelected upper house – has concluded.

The Commission's draft of the 13th Company Law directive fails to address the real barriers to takeovers in the European Union, the Lords found.

The Lords' European Communities Committee also said in its report on takeover bids, published today that the directive would increase the risk of tactical litigation by companies making or fighting takeover bids in London. The City's ability to resolve takeover battles quickly would also be compromised.

The committee's findings are expected to provide ammunition for a government campaign for the draft to be withdrawn.

The conclusions will also give heart to London's non-statutory Takeover Panel, which has waged a vigorous battle against the proposals.

The panel fears that bringing its work within a statutory framework could open decisions to challenges both in British courts and the European Court of Justice.

According to Mr Alistair Defriez, director general of the panel, the directive would undermine London's role as the takeover capital of Europe, a business that last year generated fees of £950m ($1,482m) for City institutions. It could also throw the panel open to compensation claims by thwarted bidders or defenders equal to the value of the bid, he said earlier this year.

TECHNOLOGY

Société Européenne des Satellites, which owns the Astra series of satellites, plans to offer an interactive multimedia service

George Cole looks at a flexible and cost-effective solution to traditional communications systems

Delivery via the satellite route

Although many companies use telephone lines and modems to send or receive data, a growing number are opting for an alternative route: satellite.

Supporters of data delivery by satellite say it can offer a more flexible and cost-effective solution to traditional telecommunications systems. An increasing number of companies appear to agree with them.

Most satellite data systems use a technology known as VSat (Very Small Aperture Terminal). This comprises a small satellite dish (around 60cm to 1.2m in diameter) and a box of electronics which may be linked to a company's computer, telephone or video equipment. A VSat system can be connected to a large computer network or even an individual PC.

The data delivered via VSat is assembled, packaged, encrypted and transmitted from a satellite control centre, which could be on the other side of the world. The data may be sent to a single location, or thousands of sites simultaneously. Although many VSat systems simply transmit data, a growing number are also carrying multimedia services with video, text, speech and pictures.

The VSat market is well established in the US, where more than 75,000 two-way systems are in use. The market is growing around 17 per cent per year, with some 100,000 systems expected to be in use by 1998. Companies using VSat systems include Chrysler, Chevron, General Motors, Ford and Toyota.

In Europe, VSat has grown more slowly: several years ago, fewer than 2,000 systems were in use. Today, the number is nearer 10,000 systems, and is expected to double within the next couple of years.

VSat systems are being used for a wide range of functions, and by various sectors, including the automotive, retail, banking and credit-card industries. Its uses include the delivery of training materials and distance learning packages, accessing remote databases, and also transmitting electronic mail (e-mail), business television programmes, point-of-sale information, credit-card verification data and financial updates.

Organisations with offices scattered across a country or a continent may find it easier to link their branches by VSat rather than telephone lines or cable – especially where a country has a poor or unreliable telecommunications infrastructure. The Indian government has launched three satellites, known as Indsat, and leased them to private companies for VSat use.

Cadbury India, for example, uses a VSat service developed by WipoBT, a joint venture between Wipo, India's second largest information technology company, and British Telecom of the UK. The service, which began operating at the start of the year, is used to link 11 sites, which communicate via e-mail and database software.

"The Indian telephone system is so weak, and it is very difficult to put down miles of cable for a terrestrial system," says Anil Nadkarni, information technology manager at Cadbury India. "VSat offers a much better service."

Another attraction of VSat is its cost when compared with land-based telephone systems, says Mike Cook, managing director of Hughes Olivetti Telecom (Hot): "The typical cost of a VSat site is $300 [£190] a month, and half of that is the cost of the equipment," he says.

"A company operating on, say, a pan-European basis, could see its communications costs go down by 20 to 30 per cent in the medium term, and even more in the long term."

The automotive industry has led the way in VSat systems, not least because many leading car companies have hundreds or even thousands of dealers scattered across various countries. Last October, General Motor's Opel/Vauxhall unit ordered more than 3,000 VSat systems from Hot. The systems will be used to link the computer networks of dealers in 19 European countries. The dealers will use it for vehicle and spare parts ordering, e-mail and real-time transactions.

IBM is setting up a large VSat network for Peugeot/Citroën, which will connect 4,200 dealers in 11 European countries. The system will also be used for ordering parts and vehicles and, eventually, live video conferencing and taped broadcasts. This will simplify connection procedures and increase the number of exchanges between manufacturers and dealers, while reducing costs. "We'll have a much closer relationship with our dealers," says Jean-Serge Bertoncini, Peugeot/Citroën's director of IT.

VSat technology is also being used by the banking and retail sector. In Italy, the bank consortium Infrostrada/Cedarinord has ordered almost 300 VSat terminals for branch applications, including its automated teller machine network. The French supermarket chain Casino has around 900 VSat terminals operated by France Telecom.

One of the main uses of VSat by the retail sector is stock reconciliation. Sales data from a company's stores can be collected by head office, analysed and stock replenished when required.

In September, Hot will launch a new one-way VSat service in Europe, DirecPC. The service, which will operate from the Eutelsat II satellite, will link up to individual PCs and transmit data at 6m-12m bits per second. At these speeds, 400 pages of data could be transmitted in less than a minute.

DirecPC will initially be aimed at large businesses, which could use it to deliver data packages to individual companies or workers.

One of the first to sign up for the service is Deutsche Automobil Treuhand, owned by the German car manufacturers. Dat has ordered around 2,000 DirecPC systems and plans to use them to send spare parts catalogues direct to dealers. The current distribution system puts the information on to a CD-Rom, which then has to be posted.

DirecPC will also be used for training and distance learning, and other target markets include home workers, telecommuters and small businesses. Hot says one of the biggest attractions of the system will be its ability to deliver data from the Internet up to 20 times faster than existing telephone modems – a system it calls "Turbo-Internet".

Other possible services include the delivery of retail software direct to a PC, which users could try before they buy (the trial software is designed to become inoperative after a short period of time).

In the US, where more than 18,000 DirecPC systems have been ordered, one of the most popular consumer services is the Financial Ticker, which continually transmits stocks and share information.

A consumer system, comprising dish, electronics and software, should cost around £1,000, says Cook, with a monthly subscription of around £15.

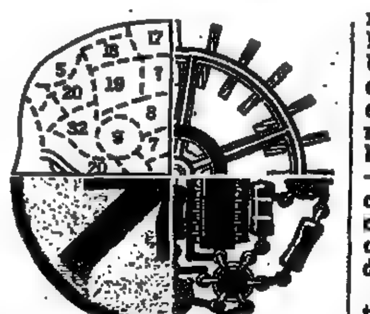
Other companies are poised to move into the satellite data market. Last month Société Européena des Satellites, which owns the Astra series of satellites, announced plans to offer an interactive multimedia service from the Astra 1H satellite, due to be launched in autumn 1998. "We will initially aim the service at large businesses, such as hotels, retailers, banks and automotive sectors," says Romain Bausch, director general of Ses, "but we also see an opening in the SoHo [small office, home office] sector".

Eutelsat, the European satellite operator, also plans to offer a PC-based data service. The company has developed a prototype data system that uses a PC card and dish, and offers users Internet speeds around 100 times faster than existing telephone modems. "The PC cards would cost around $300 to $500 each, and could be available next year," says Giulino Berretta, Eutelsat's commercial director.

A further venture was announced last month by Microsoft, the US software giant, Nintendo, the Japanese game maker, and the Nomura Research Institute, which plan to launch a satellite-based online service in Japan next year.

The service will transmit a mix of sport, news, shopping and entertainment services from the St Giga satellite system to suitably equipped PCs. Microsoft plans to launch a similar service in the US next year in a joint venture with DirecTV, the satellite digital TV service.

Worth Watching · Vanessa Houlder



Why nicotine feels necessary

Until recently, nicotine was usually considered to be habit-forming but not addictive. Now fresh evidence of its addictive power has been provided by researchers at the University of Cagliari in Italy, according to a report in today's Nature magazine.

When scientists injected small amounts of nicotine into rats, they found it mimicked the neurochemical and metabolic effects of cocaine, amphetamine and morphine. The part of the brain that was affected is involved with the integration and expression of the emotions – and is known to be associated with the cravings and rewards associated with drug use.

University of Cagliari: Italy, tel 3970303819; fax 3970300740.

Faster download of WWW pages

Downloading World Wide Web pages can be tediously slow. Open Market, a US Internet software company, has designed software that tries to deal with this problem by retrieving requested Web pages at prescheduled times, storing them off-line and updating them when required.

The software, OM-Express, is able to interact with online information, so users can order items electronically or connect to another page. It costs $29.95; details are available from http://www.openmarket.com.

Open Market: US, tel 6176219500; fax 6176211703.

Polymer coating cuts inflammation

Scientists in Israel believe they have found a potential method of treating chronic inflammatory diseases.

The approach taken by researchers at the Weizmann Institute and Ben-Gurion University centres on a drug delivery system that can tackle excessive quantities of "tumour necrosis factor" (TNF) in the body. Too much of this substance – which normally kills diseased cells and controls inflammation – causes rheumatoid arthritis and other conditions such as disease-related weight loss.

Previous studies have shown that excessive levels of TNF can be reduced by injecting soluble receptors that bind with it into the bloodstream, but it proved difficult to maintain a steady level of the receptors.

The latest approach, reported in Cytokine, involved coating the receptors in a polymer so they were continuously released in small amounts. Tests on mice showed that injections of the polymer-coated TNF receptors alleviated symptoms such as swelling of joints for several weeks.

Weizmann Institute of Science: Israel, tel 97289343852; fax 97289344104.

Embossing beats microchip fraud

Memory Card Technology, a Danish IT company, says it has developed a low-cost technique for cutting microchip fraud.

A serial number is embossed on each memory module it produces, during the assembly process. The number can be checked against a database of registered owners, allowing the police to trace stolen chips back to their original owner.

Memory Card Technology: UK, tel (0)1753 685444; fax (0)1753 686423.

No froth from the bottom of the barrel

The explosion of froth into a half-pulled pint of draught beer is a familiar problem for bartenders worldwide – it means they have reached the bottom of the barrel, writes Andrew Baxter.

The froth wastes beer – and the bartender's time spent cleaning up. Now Israeli-based Selector has introduced Fob Stop, which shuts off the flow of beer as soon as the keg is empty, so that little foam comes out of the tap. The company says the device should save 1½ pints for every 100.

Selector: Israel, tel 97239245559; fax 97239245499.

Cinema/**Nigel Andrews**

Comedy squares the difference

A deal of nonsense is talked about the differences in movie culture between Europe and America. In Hollywood film-makers are crass, vulgar and dollar-obsessed (goes the wisdom). In Paris, Rome or Madrid directors wear berets or artistic frowns as they trawl the streets for human reality or hold their viewfinders to heaven to catch the pulse of *l'existence universel*.

This was the subtext, we all knew, behind the Gatt fuss some years ago. It had nothing to with quotas or economics, but everything to do with the belief that the EC and US are two different movie hemispheres separated by a large, watery pinch of salt.

But do we believe the belief? If they are separate, why do *The Truth About Cats And Dogs* and *Les Apprentis* seem like the same film in different languages? Both these comedies about human relationships have charm, warmth and wit. Both are also built on one of those unexamined clichés that are part of everyone's movie lore. It goes: people without stable relationships are dysfunctional, especially people who live in apartments.

Though based on a premise no less disputable in Saint-Germain than in Sunset Boulevard, this genre has given us richly variegated gems from *Repulsion* to *The Tenant*, from *A Bout De Souffle* to *The Odd Couple*. This week's odd couple of films once more run through the essentials.

What goes in the flats of unmarried people? Unwashed laundry goes on. Ill-stocked refrigerators go on, containing at least one piece of meat or cheese developing advanced verdigris. Phone calls from anxious mothers go on, and on. And pets and musical instruments go on, as substitutes for wife or husband. In *The Truth About Cats And Dogs* Abby (Janeane Garofalo) is a dumpy,

THE TRUTH ABOUT CATS AND DOGS (15)
Michael Lehmann

LES APPRENTIS (15)
Pierre Salvadori

HAPPY GILMORE (12)
Dennis Dugan

HUSTLER WHITE (18)
Bruce LaBruce and Rick Castro

BACK OF BEYOND
Michael Robertson

acerbic young radio vet, who returns each night to her lonely lair in Santa Monica. Abby's grotty room is housed in a wisteria-clad palazzo worthy of Ravello, but that may be just an LA production designer's consolation delirium.

Her only friends are her violin and the blonde model across the hall (Uma Thurman), who being single is also dizzy and incompetent. When they fall in love with the same Englishman (Ben Chaplin), this focuses their entire minds and lives and also seems to clean up their apartments without aid of human hand.

Chaplin is a bushy-browed cockney who first phones Abby's programme to ask why his Great Dane is growling after being required to don roller skates for a TV commercial. Anyone who needs to ask that is in need of phone-in psychotherapy himself.

Instead a Chaplin grateful to Garofalo for her help starts dating Thurman because the first girl, embarrassed about her plain looks, pushes the second girl at him pretending that she is she. All clear? If not, a helpline will be established after this column. In the event, screenwriter Audrey Wells and director Michael Lehmann, showing that inside the man who made *Hudson Hawk*, the man who made *Heathers* is still trying to re-emerge, to put lovely comic spins on this mistaken identity romance. It is not just the lead players who scatter charm, especially the ex-*Larry Sanders Show* Garofalo. A good comedy is nourished by its minor characters, here deliciously tart from the stern cosmetics assistant who holds up a mirror to a customer's face saying "Do you see how dry and discoloured you are?" to the pets themselves, who instead of being winsome pushovers have minds, wits and pushing-over plans of their own. The message is: we do not mind clichés about human life if they are freshly, brightly re-enacted. In *Les Apprentis*, a comedy of fecklessness from Pierre Salvadori, Guillaume Depardieu (son of Gerard) is a bachelor slob living with another bachelor slob (Francois Cluzet).

Cluzet, writing an unfinished play, cannot even finish his letters to an estranged girlfriend. Depardieu props up their life by shoplifting groceries, though his friend complains, "We only eat what fits in your pockets." At which point a third friend who works for an airline pops round with some plastic trays: "I've just nicked some inflight meals."

Only French cinema has this genius for plotless plots. The film shambles between endearing mishaps, the only structure being the geometrical progression by which the mishaps get worse. From domestic disarray we graduate to a robbery, a beating up and a spell for Cluzet in a mental asylum. The film is not all funny, but in the best sense it is a *comédie humaine*.

Writer-director Pierre Salvadori, who had a debut hit with his doleful romp about a hitman *Wild Target*, has the priceless gift of non-emphasis. Comic situations are not force-grown but spring unaided from tiny seeds of truth.

A single contrived detail would destroy scenes like Depardieu's scared-silly participation in a sex threesome – he keeps throwing anxiously ingratiating glances at the girl's voyeur lover – or like the need to save his mother from a Sing Sing-style old people's home, where she works on the appropriately in-house punishment of his employee turned thief.

Happy Gilmore, a golfing comedy, is the week's third film in which an unmarried protagonist wreaks havoc on the world. Probably not even the love of a good woman, however, would stop the sports-man-maniac of the title (Adam Sandler) from unleashing his ice hockey origins on the genteel world of three-irons, check trousers and cathedral-voiced commentators.

Happy's ability to smash golf drives into adjoining counties encourages this move from rink to fairway. That and the need to save his mother from a Sing Sing-style old people's home, where she works on the quiltmaking chain gang. Worse than *Caddyshack* but better than *Caddyshack 2*, it passes 90 agreeable minutes. However, you should be warned that there is a fair share of mocking the disadvantaged, from Carl Weathers as a golf pro with an accident-prone wooden hand to Lee Trevino mercilessly asked to play Lee Trevino.

Disability is no handicap, nor is any other foible, in *Hustler White*, a gay comedy whose visual explicitness and erotic variety make Andy Warhol seem like Carl Dreyer. So does the film's technical command. The jerky, overexposed images move from one enormity to another – every *mot* is *juste* – while the plot plays variations on *Sunset Boulevard*.

Aunt Edna will be in the trauma ward before the opening credits are over. Others, please form an orderly queue at the box office.

Back Of Beyond is an Australian fantasy thriller salvaged from oblivion by the National Film Theatre. Why?, we ask. What was wrong with oblivion? *Strictly Ballroom's* Paul Mercurio mans a semi-derelict filling station in the remote desert, where everyone stops by from jewel thieves to pretty girls in scrub-torn short skirts. Could it all be supernatural? We only know that time and reality must be subjective in a film where people speak in 1950s-style B-movie mantras and where 85 minutes seems like 85 hours.

Ben Chaplin rings a radio vet to ask why his Great Dane keeps growling in 'The Truth About Cats And Dogs'

Theatre/**Ian Shuttleworth**

'Birdy'

Alan Parker's 1984 film adaptation of William Wharton's first novel is now largely (and undeservedly) neglected – but not by Kevin Knight, who directs this stage version.

The rooftop scenes on a high-level gantry may coincidentally resemble the same scenes on film; it may even be mere happenstance that the actor cast as army psychiatrist Dr. Weiss (Peter Banks) bears a startling resemblance to his celluloid counterpart; but to use a poster programme image which effectively reproduces that of Parker's work surely goes beyond mere brand-recognition. Elsewhere, though, the play comes into its own.

Where Parker simplified Wharton's novel into a superior, offbeat buddy-movie with incidental commentary upon the horrors of the Vietnam, adaptor Naomi Wallace remains faithful to the book's second world war setting and concentrates on the puzzled homoeroticism between the central duo, Al and Birdy.

This reaches its peak when the latter, imagining himself to be a bird, silently demands to be fed avian-style from Al's mouth, leading to the most disturbing male-to-male kiss many of us are ever likely to see on stage.

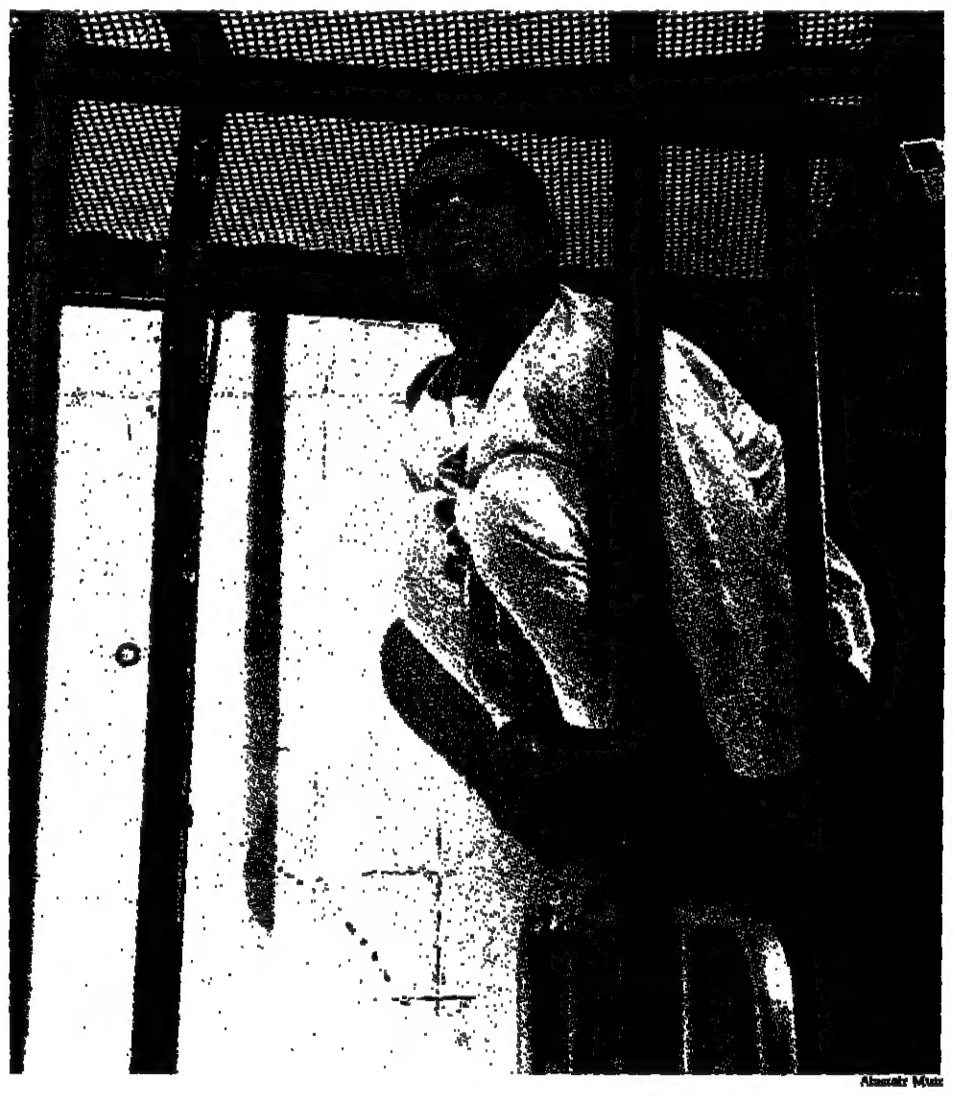
Knight's stage design is remarkable. A huge, crazily sloping circular grille takes up most of the Lyric studio's playing space; on this upper level young Al and young Birdy play out their teenage activities, as we see Birdy's increasing fascination with his feathered friends. The grille cants up to reveal beneath it, on a revolve, Dr. Weiss's surgery and Birdy's cell.

Corey Johnson makes a fine Sergeant Al, literally defaced during the war and crippled by his temper. Johnson gives Al a Montgomery Clift-like dimension of something always kept just out of sight.

Matthew Wait as the older Birdy has the crouching and flapping down perfectly. It comes as little surprise that when Birdy returns to "humanity" in the final scene, he can dismiss his delusion as presence; no matter how the line is meant, Wait's earlier performance gives it a literal truth. The couple's younger counterparts, Adam Garcia and Tam Williams, are competent but unexceptional.

Naomi Wallace may, to an extent, be marking time before her next original play, but Birdy – despite its awkward ending – is nevertheless one of the better studio shows on display this summer.

Lyric Studio Hammersmith, London W6, until August 17 (0181 741 2311)



Alastair Muir

Truth takes flight in Matthew Wait's performance as Birdy

Concert/**David Murray**

Resplendent LSO helps Barbican pass the test

Last Sunday and on the previous Thursday, the London Symphony played magnificently for Kent Nagano in the Barbican Hall. We realised again how substantial the improvements to the Barbican acoustic have been; there could hardly be more stringent tests than Mahler's Sixth Symphony tonight and Berlioz's *La Damnation de Faust* (Sunday), and neither of them ever sounded clotted, glaring or harsh – except, of course, when the composers wanted them to do.

It was a joy to hear the Berlioz in its proper setting, which is a concert hall – ideally, as this time, with dramatic lighting, but with no attempt to stage a dramatic story.

La Damnation is really unstageable (as Covent Garden discovered not long ago), because its dimensions and proportions were not imagined for theatrical purposes: too much of the story omitted, too many minor episodes dwelt upon at length.

Here Nagano kept the house mostly in darkness, the orchestra equipped with small reading-lights, and the soloists and parts of the chorus lit up in turn (and sometimes in lurid hues) as they came musically to the fore. Thus *La Damnation* passed like a fevered dream, a fluid sequence of fantastic memories and yearnings – much like the *Symphonie fantastique*, in fact, which is just as it should be.

There were several very French details of the score which sounded cosmopolitan and a bit lush in Nagano's treatment, but not to the detriment of a solid overall success. Imposing support from the London Symphony Chorus and the New London Children's Choir; excellent soloists. Giuseppe Sabbatini's tenor Faust never sounded anything but Italian, and yet was perfectly adapted to Berlioz style; Natale De Carolis's Mephistopheles, also stylish, needed only a little more bass weight; Olga Borodina made wonderful, melting sounds as Marguerite.

The Mahler Sixth was distinguished above all by inspired playing, from every first desk and every section of the band. From Roy Carter's infinitely expressive oboe to the nobly unanimous trombones, there were creative contributions from everybody.

Nagano's reading was assured and strong. I should quibble with his (unmarked) relenting for the "Alma" theme in the first movement, which sounded sentimental, and his emphatic tempo-changes in the finale left it as a series of vivid episodes, rather than a whole, implacably driven sequence; but the andante was ravishingly sustained, and there was a wealth of perceptive detail throughout – riches enough.

That concert also offered the premiere of James MacMillan's *The World's Ransoming*, commissioned by the Benjamin family for the LSO and their superlative *cor anglais*, Christine Pendrill. The music has the air of a religious ritual, which is indeed what it is: an orderly meditation on Maundy Thursday, of considerable breadth and depth. Miss Pendrill's instrument winds pungently through the score, while episodes with various instrumental trios spring up and pass away.

The felt drama of *The World's Ransoming* reaches considerable heights in the later stages. MacMillan's orchestral skill, and his art of construction, ensure that it pleases the ear and rewards the attention.

We shall surely hear more of it: for a start, when the LSO repeats it next December, not long after MacMillan's new cello concerto has its premiere with Rostropovich.

INTERNATIONAL

ARTS GUIDE

AMSTERDAM

CONCERT
Concertgebouw Tel: 31-20-5730573
● Catherine Leonard and Maria Kulakowska: the violinist and pianist perform works by Beethoven, Stravinsky and Wilson; 8.30pm; Jul 19

● Maria João Pires, Augustin Dumay, Jian Wang and Roberta Alexander: the pianist, violinist, cellist and soprano perform Schubert's Piano Quintet in A, D.667 and Der Hirt auf dem Felsen; 8.15pm; Jul 19

BERLIN

EXHIBITION
Berlinische Galerie – Martin-Gropius-Bau Tel: 49-30-254860
● 100 Zeichnungen – Ausgewählt aus der Graphischen Sammlung der Berlinischen Galerie: exhibition of 100 drawings from the museum's collection, spanning the period from the end of the 19th century to the present; to Aug 4

DUBLIN

CONCERT
National Concert Hall – Geoláras Náisiúnta Tel: 353-1-6711888
● The Orchestra of St Cecilia: with conductor/hornist Barry Tuckwell perform works by Haydn, Mozart and Schubert; 6.30pm; Jul 19

EXHIBITION
Irish Museum of Modern Art Tel: 353-1-6718666
● Sidney Nolan: The Wild Geese: painted in 1989, "The Wild Geese" series is one of Sidney Nolan's final works. From the vantage point of old-age, the artist looks at a number of key figures, who, through wanderlust or forced emigration, participated in significant flights from the familiar; to Jul 21

FRANKFURT

EXHIBITION
Schirn Kunsthalle Tel: 49-69-2998820
● Lucio Fontana: a major retrospective exhibition featuring the work of the Italian artist Lucio Fontana (1899-1968).
The exhibition includes close to 200 works selected from museums and private collections throughout the world. Following recent research in Argentina, where Fontana was born, hitherto unknown works from Argentine sources are shown to the public for the first time; to Sep 1

LONDON

EXHIBITION
Serpentine Gallery Tel: 44-171-4026075
● Peter Fischli – David Weiss: in this exhibition these Swiss artists present an installation which occupies the entire space. Combining sculptural elements and video, the work exemplifies the artists' observations on the nature of ordinariness and their fascination with balance and imbalance. The artists have created a "wunderkammer" (a room of wonders) made up of their sculptures, a series of slide projections and film; to Jul 21

JAZZ & BLUES
Barbican Hall Tel: 44-171-6384141
● Branford and Ellis Marsalis: the jazz saxophonist and jazz pianist perform interpretations of standards from the classic American song repertoire, including "Miss Otis Regrets", "Lulu's Back in Town", "Stella by Starlight" and Ellington's "Angelica"; 7.30pm; Jul 21

Queen Elizabeth Hall Tel: 44-171-9210600
● Henry Threadgill: performance by the jazz saxophonist/composer, accompanied by his group Make A Move, which includes guitarist Brandon Ross, accordionist Tony Cedras, double bass-player Karl Peters and drummer Gerald Cleaver; 7.45pm; Jul 19

THEATRE
Barbican Theatre Tel: 44-171-6384141
● Julius Caesar: by Shakespeare. Directed by Peter Hall and performed by the Royal Shakespeare Company. The cast includes Christopher Benjamin; 7.15pm; Jul 19, 20 (also 2pm)

LOS ANGELES

CONCERT
Hollywood Bowl Tel: 1-213-850-2000
● Hollywood Bowl Orchestra: with conductor John Mauceri, soprano Diana Soviero and tenor Richard Leech perform works by Rota, Puccini, Giordano and Morricone; 8.30pm; Jul 19, 20

EXHIBITION
Norton Simon Museum of Art Tel: 1-818-449-6840
● Cherished vistas and famous places: Hiroshige and the Japanese Landscape: an exhibition of 75 woodblock prints by the Japanese artist Ando Hiroshige (1797-1858). Hiroshige is best known for his many landscape series celebrating the beauty of 19th century Japan. His series "Fifty-Three Stations of the Tokaido" forms the basis for this exhibition; to Jul 21

NEW YORK

CONCERT
Avery Fisher Hall Tel: 1-212-875-5030
● Mostly Mozart Festival Orchestra: with conductor Raymond Leppard, pianists Andreas Haefliger, Kun Woo Paik and Christian Zacharias perform Mozart's Piano Concerto No.23 in A major, K488, Piano Concerto No.24 in C minor, K491 and Piano Concerto No.25 in C major, K503. Part of the Mostly Mozart Festival; 8pm; Jul 19

● Time Warner Concerts in the Parks: The New York Philharmonic: with conductor Eiji Oue perform works by Mussorgsky, Stravinsky, R. Strauss and Respighi in Cunningham Park, Queens; 8pm; Jul 19

Giants Stadium Tel: 1-201-935-3900
● The Three Tenors: José Carreras, Plácido Domingo and Luciano Pavarotti: accompanied by The Philharmonia Orchestra with conductor James Levine. This concert is a part of the World Tour of The Three Tenors; 9pm; Jul 20

EXHIBITION
Whitney Museum of American Art Tel: 1-212-570-3600
● Shigeko Kubota: exhibition featuring a new installation of metal, mirror, video, and motorised sculptures, created between 1992 and 1996 by Shigeko Kubota. The sculptures – some first shown at the 1993 Venice Biennale – include "Bird II", "Video Flower", and "Video Tree"; to Aug 25

PARIS

DANCE
Théâtre National de l'Opéra – Opéra Garnier Tel: 33-1 42 66 50 22
● Coppélia: a choreography by Bart after Saint-Léon to music by Delibes, performed by the Ballet de l'Opéra National de Paris and the Orchestre de l'Opéra National de Paris; 7.30pm; Jul 18, 19, 20

PHILADELPHIA

EXHIBITION
Philadelphia Museum of Art Tel: 1-215-763-8100
● Cézanne: an international loan exhibition spanning the career of Paul Cézanne (1839-1906), organised by the Philadelphia Museum of Art in collaboration with the Réunion des Musées Nationaux/Musée d'Orsay in Paris and the Tate Gallery in London. The display includes 100 oil paintings, 35 watercolours and 35 drawings; to Sep 1

SALZBURG

OPERA
Grosses Festspielhaus Tel: 43-662-80450
● Jephta: by Handel. Conducted by Nikolaus Harnoncourt and performed by Concentus Musicus Wien and the Arnold Schoenberg Choir. Soloists include sopranos Dorothea Röschmann and Isabel Rey, and mezzo-soprano Marjana Lipovsek. Part of the Salzburger Festspiele; 6.30pm; Jul 21

WASHINGTON

EXHIBITION
National Museum of American Art Tel: 1-202-357-2700
● Beauty Reconfigured: The Art of Thomas Wilmer Dewing: exhibition devoted to the turn-of-the-century Gilded Age artist Thomas Wilmer Dewing, best known for his depictions of women in interiors and dreamlike outdoor settings. Originating at The Brooklyn Museum, this exhibition is expanded; from Jul 19 to Oct 14

■ *Listing compiled and supplied by ArtBase The International Arts Database, Amsterdam, The Netherlands. Copyright 1996. All rights reserved. Tel: 31 20 664 6441*

WORLD SERVICE
BBC for Europe can be received in western Europe on medium wave 648 kHz (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV
(Central European Time)

MONDAY TO FRIDAY

NBC/Super Channel:

07.00
FT Business Morning

10.00
European Money Wheel
Nonstop live coverage until 15.00 of European business and the financial markets

17.30
Financial Times Business Tonight

CNBC:

08.30
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

Economic Viewpoint · Samuel Brittan

Sterling in euro's shadow

Labour's compromise plan for the Bank of England makes sense mainly if it is seen as a step towards full independence ahead of monetary union

Sometimes a compromise may be worse than either extreme. This may be true of Labour's policy of giving the Bank of England more "operational" say in monetary policy. Labour proposes that the Bank's monetary recommendations should not come from the governor alone, but from an eight-person Monetary Policy Committee "drawing on outside expertise", with members serving for seven years.

So far so good. The proposed arrangements are less dependent on accidents of personality than the highly publicised meetings between Mr Kenneth Clarke, the chancellor, and Mr Eddie George, Bank governor.

But the Bank has become worried about possible snags. If it were really independent then it would make sense for individual board members' views to be eventually disclosed – as they are at both the Federal Reserve and the Bundesbank, and as Labour proposes. But if the Bank is still just giving advice any publication or leakage of individual views becomes dangerous, as a chancellor will usually be able to point to members who happen to agree with him rather than the governor or board majority. There is also the problem of finding high quality outside members, if they are sworn to observe a Trappist silence and have no duties but to speak and vote.

The proposed Labour arrangement makes sense mainly if seen as a transition on the road to full independence. This could come about in two ways. The Labour leadership is open-minded on the issue and will be influenced by the Bank's "track record".

But a more plausible route to independence is through membership of the European Economic and Monetary Union (Emu). It is a condition of membership that members' central banks must become independent, if only on the day before Emu takes place.

Markets are going to be disappointed if they expect Labour to come any cleaner on Emu itself. Even assuming that Labour wins the next election, it will have its hands full domestically. A lot will also depend on just how bad the budget deficit is at the time. If the UK looks as if it can approach as near to the famous 3 per cent limit for the deficit as Germany or France, there will be no problem. But to make a heroic cut in aggregate public expenditure larger than the Conservatives would have done (or increase taxes by more instead) would seem to Mr Tony Blair, the Labour leader, too high a price.

Nevertheless, postponing a decision or deciding to join a couple of years after the 1999 starting date has its own dangers. One minefield is the Exchange Rate Mechanism. On a strict interpretation of Maastricht, Emu founder members must be in the ERM for two years before the decisions on membership are taken in March 1998. This means they should have been inside since this spring.

Contrary to popular belief, Mr Clarke failed to get this condition waived; but he did achieve an understanding that the issue would not need to be clarified until 1998.

Is this a distinction without a difference? As so often, an outlying country such as Italy or Finland might bring matters to a head. For if either or both were to rejoin the ERM, it would be as a marker for Emu membership; and they would be likely to emphasise the link.

There is also a difference of perception. For most British politicians, an ERM with a 15 per cent margin of fluctuation around the central rate is a formality. But France, Germany and their immediate neighbours see it as a means of maintaining approximate exchange rate stability, but with sufficient weapons to fight speculators who no longer face a one-way bet. The ironical aspect is that it was Mr Clarke who – when the UK was a non-member – proposed the 15 per cent margins in 1993 when the ERM was threatened with break-up or going into long-term suspension.

* * *

The most acute place where UK dilemmas could come to a head is the familiar one, sterling. The upward trend in the pound, visible until this week's setback, amounted to little more than a blip in a long downward movement. At just above DM2.3, the pound is now not only well below its old ERM rate; it is still well below the rate prevailing as recently as 1994.

Nevertheless, even blips have in the past been large enough to present awkward policy dilemmas. The Treasury emerged from past traumas with a doctrine that some of strain of any movement into or out of sterling should be taken on the exchange rate and some on interest rates. This means that if sterling rises, downward pressure is being put on output and prices and this permits a level of interest rates "lower than it would otherwise be".

Such considerations could *not* have supported the base rate cuts which the chancellor has made since autumn 1995, as sterling was then lower than justified by international cost comparisons. These past interest rate reductions could be justified only by domestic worries about the slowdown in recovery and the size of the capacity gap. But if sterling rises much further, anxiety about its appreciation could take hold as an independent influence on policy.

Sterling's setback this week reflects the troubles of Wall Street and the dollar. Financial markets are now hoping for a lead from Alan Greenspan's Congressional testimony today. But there are several forces which could soon boost sterling further.

The financial markets are becoming ever more convinced that Labour is now at least as much a party of sound money as the Conservatives. On top of this is the belief that Labour is more likely to take Britain into Emu. As I have just explained, Labour leaders do not themselves know if they will, or if so when. But a higher probability is sufficient to affect exchange rates and interest rates. The present interest differential between sterling- and D-Mark-denominated assets would make no sense under a single currency. If the UK were expected to join Emu, UK yields would be a bargain for mobile fundholders.

So if UK entry were certain, sterling interest rates would have to come down, say to French levels. Alternatively sterling would have to overshoot to a level where an expected future fall, before fixing the Emu entry rate, would compensate for the present interest rate advantage. As entry is far from certain, market movements will not go so far, but go that way.

At one time the Treasury response to such dilemmas was influenced by a rule of thumb that a 4 per cent rise in the sterling index justified a 1 per cent reduction in base rates. This rule is now disowned; but for want of something better market analysts will still look at it during any sustained rise in the pound.

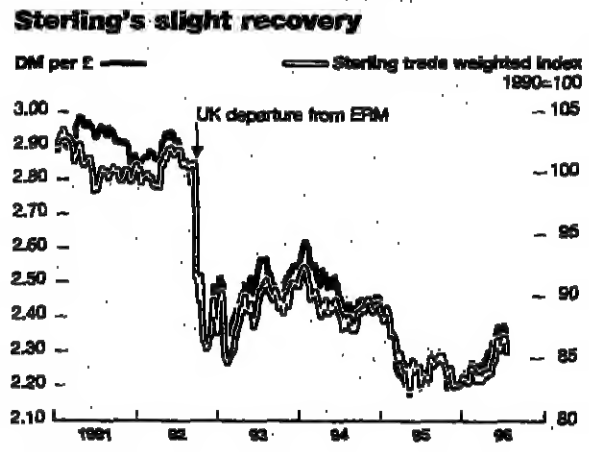
The compromise embedded in any such rule, or its judgmental equivalent, is however far from satisfactory. When sterling rises and interest rates fall, the domestic service and consumer sector of the economy benefit, while the traded and manufacturing sectors are squeezed.

If sterling is to be fixed against a currency like the D-Mark, then the rate of inflation in British traded goods would not be able to exceed the German average. But it can take a long time for the external anchor to outweigh an immediate boom in property prices, consumer demand and service expenditure of the kind we saw in the late 1980s.

If the link with the hard currency bloc were permanent, it would be worth weathering some temporary domestic inflationary disturbances to achieve the big prize of long-term currency stability. But as previous experience with shadowing the D-Mark and ERM membership showed, it is not worth weathering them for the sake of a link which is liable to snap.

The only lasting solution to the conflict between external and internal pressures on monetary policy is to do away with the conditions that give rise to the dilemma – namely the division of a single market among several fluctuating currencies. Instead a common currency should be established with monetary policy designed to stabilise average monetary conditions among members.

Sterling's slight recovery



Source: Datastream

BOOK REVIEW · Christopher Taylor

IN WITH THE EURO OUT WITH THE POUND:
The Single Currency for Britain: By Christopher Johnson
Penguin, 272pp, £7.99

A clear view of Emu impaired by a rosy tint

No informed commentator doubts that the European Union's plan for economic and monetary union (Emu) is of colossal importance for Europe and the UK. Yet the message does not seem to be reaching ordinary people.

Christopher Johnson, a highly respected economist and leading supporter of UK membership of Emu, has made a heroic attempt to remedy the shortage of accessible information. However, this book merits only two cheers: although impressive, its conclusions are unduly rosy in vital respects.

On at least one main point, Johnson is surely right: the economic arguments about monetary union can stand on their own. He shows that monetary union can function without a large central budget or heavily co-ordinated powers of taxation and public expenditure – provided governments have the freedom and wisdom to follow sensible fiscal policies. This means that a successful Emu will not require a lot of political integration.

But the problem with the pure economics of Emu is that although some of its possible effects might be large, they are highly uncertain. The readily quantifiable benefits such as savings in transaction costs are small. On Johnson's figures, they might add 1-2 per cent permanently to the gross domestic product of member states. This would be a useful gain but hardly warrants the upheaval and risks.

The potentially large effects of monetary union are basically threefold. First, it could deliver a substantial cut in interest rates for weaker-currency states, by ending uncertainty over exchange rates and reinforcing fiscal discipline.

Johnson estimates this could add up to 0.5 per cent to annual growth of the UK's potential GDP over 10 years. This is not far-fetched, but depends on many uncertain factors. Most crucial is whether Emu would function well or not – essentially a question of political will.

The main risk is that once governments have qualified for membership of the single currency, they will be tempted to relax fiscal policies. This could occur in reaction to the austerity needed to qualify for Emu, and governments will face no threat to their exchange rate from higher borrowing.

Admittedly market discipline on governments could be tighter in the monetary union because of the ban on intergovernmental bail-outs – but this cannot be relied on. Neither can the quasi-automatic financial sanctions for bad behaviour advocated by the German government.

A second benefit would be the greater price stability that might be a product of Emu. It is widely accepted that low inflation, if established and expected, helps growth in the longer run.

But even here the evidence is shaky. Respected economists used to argue that a moderate rate of inflation helps the adjustment of relative wages and prices. And the experience of the core European economies since the 1970s suggests price stability brings significant costs in unemployment.

There is also some question whether the creation of a hyper-independent European central bank is necessary for better inflation performance. National central banks might achieve as much if less susceptible to political interference than most have been.

The third key area of uncertainty surrounds the potential costs of abandoning an independent monetary policy and a flexible exchange rate, which allow countries to adapt their policies to their individual circumstances. These costs should not be excessive for countries with similar industrial structures and flexible labour and product markets capable of adapting to change.

Johnson provides plenty of evidence that the UK does not score highly on these counts. But he dismisses worries about the UK's "real convergence" with other EU economies on the grounds that sterling is now very competitive against the D-mark and French franc.

This suggests an important blind spot in his appraisal. Sterling may be competitive but there is a growing realisation that the D-mark is heavily overvalued against the dollar as – to a lesser extent – are the other strong currencies in the EU exchange rate mechanism.

Pressure for a downward adjustment to the D-mark (or, after monetary union, the euro) must surely occur if and when the core states are firmly launched on a sustained economic recovery. No doubt the Bundesbank will set monetary policy to avoid any decline in the D-mark as it shepherds Europe's proudest currency into Emu. And the European central bank will resist any threat to the euro in the name of price stability. But this could keep unemployment high in the heart of Europe for years to come, and imply interest rates which would be too high from a UK viewpoint.

Such uncertainties do not necessarily mean it would be a mistake for the UK to enter Emu. Participation could be greatly to its advantage in the long run if the new monetary regime is run sensibly, the fiscal rules are interpreted flexibly and observed scrupulously, and real convergence is secured beforehand.

But waiting would probably be wise if it made it possible to become more confident that these reasonable conditions would be met, and some improvement could also be negotiated in the accountability of the new central bank.

The author is a visiting fellow at the National Institute of Economic and Social Research.

In with the euro, out with the pound *is available from FT Bookshop, by ringing* +44 181 964 1251

·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). e.mail: letters.editor@ft.com Translation may be available for letters written in the main international languages.

Bold action essential on debt relief

From Mr Justin Forsyth.

Sir, The FT is right to argue in its editorial "Agreeing to debt relief" (July 16) that the Paris club should not postpone a decision on extending the Naples terms to its next meeting. This postponement, and the G7 failure to agree to International Monetary Fund gold sales, may prevent a final decision on debt reduction for the poorest countries at the IMF World Bank annual meetings in early October.

But these are not the only problems with the current debt initiative. Others include the lengthy six-year time frame before countries will benefit from multilateral debt reduction, the strict eligibility criteria for access to the initiative and the IMF's insistence on contributing its share through more loans. Given the fact that IMF loans have helped create the debt problem it seems absurd that more loans will help solve it. Poor countries, committed to poverty reduction, need a clear quick break from the past.

There needs to be a bold and concerted action by the G7 and other governments in the next two months to break the political log-jam. If not, there is a real danger that we will end up with a debt initiative which helps solve the debt "problem" for creditors but does little to help poor countries break the cycle of poverty and conflict.

Justin Forsyth,
director, Oxfam International Advocacy Office,
1511 H Street, NW,
Suite 1044,
Washington, DC 20005, US

Minimum wage essential to poverty battle

From Mr Dan Corry.

Sir, Following on from Martin Wolf's sideswipe at Labour's plans for a national minimum wage ("The fiscal trap for Labour", July 9), you included a full-scale attack on them in your editorial "Minimum wage" (July 11). But your accusations are hard to stand up.

You are convinced that minimum wages must have a detrimental effect on employment "notwithstanding controversial suggestions to the contrary". Surely you are aware of the important work done in the US by Professors Card and Kreuger that showed that, in the nearest one could get to a controlled experiment in economics, increases in the minimum wage in the US did not reduce employment. No doubt you are also aware that work (backed by the fast-food industry) by Neumark and Wascher attacking this has now largely been discredited.

Certainly an excessively high minimum wage would cause jobs to be lost, but the empirical evidence (backed up by theories of how real labour markets work) shows that one set at a sensible level need not.

You are also convinced that a minimum wage cannot help in the fight against poverty because not all people with low hourly wages live in poor households. Of course the targeting on poverty is not perfect – a minimum wage after all is aimed at low wages not poverty *per se* – but a minimum wage does pretty well. Work by Cambridge economist Holly Sutherland, published in New Economy, shows the benefits of a minimum wage in the UK would go disproportionately to the working poor. Only around 15 per cent of gains from a £3.50 rate would go to those under 20 years of age.

Also, the problem of too many benefits going to young people still living at home can be reduced by a lower minimum wage rate for young people – as happens in most EU countries. You suggest a better method to fight poverty is to make the taxpayer pay. No doubt if someone really put this forward in a big way you would talk about the distorting effects of any taxes used to raise the money, the onerous increase in the overall tax burden, dangers of employers taking advantage of any such systems to force down wages, and the problems of incentives that household means-tested benefits always cause.

It is time you confronted the evidence. If you care about poverty, then a minimum wage has to be part of the solution.

Dan Corry,
editor, New Economy,
Institute for Public Policy Research,
30-32 Southampton Street,
London WC2E 7RA, UK

Cost to the UK of political silence on Emu

From Mr John Stevens MEP.

Sir, Philip Stephens' article on the politics of Emu ("Conspiracy of silence", July 12) was spot on. It is bizarre that the principal effect of the emotive campaign to present British participation in the single European currency as the denial of our traditional parliamentary democracy should be utterly to devalue the next general election by compelling both main political parties to evade probably the most important issue the UK has faced for 40 years.

When this future cost to our constitution is added to the price we are already paying in the paralysis of our present negotiating position on the technical preparations for Emu – such as the Target clearing system, ably described by George Graham and Gillian Tett ("City fears profit loss by missing Target", July 6) – it is time to call a halt.

Emu is an issue which divides both the Conservatives and Labour. Surely, it should be possible to have a rational national debate recognising this so that the UK interest can be defended properly. Surely, it is now the duty of the City and industry to speak up. After all, it is their interests far more than those of politicians that are on the line.

John Stevens,
39 St James's Place,
London SW1A 1NS, UK

Uzbekistan attracts

From Mr Robert Scallon.

Sir, Observer, in its article about Uzbekistan and Daewoo ("St Daewoo's day", July 12) demonstrated the need for more facts on that country. Here goes:

- Daewoo is indeed the largest foreign investor in Uzbekistan but its investment programme is broader than just the automotive sector.
- There is a significant element in the Uzbekistan population which is of Korean extraction and which is represented up to deputy prime minister level.
- Uzbekistan is enjoying an improving reputation in the west and is attracting plaudits from organisations such as the World Bank and the European Bank for Reconstruction and Development.
- A few 1995 statistics (gross domestic product $21.4bn, exports $3.11bn, oil production 5.5m tonnes, gas production 47bn cubic metres, gold production 63.6 tonnes, cotton production 4m tonnes, reserves $1.5bn, foreign debt $1.5bn) suggest a country in which the UK should show more interest.

Robert Scallon,
export finance director,
BZW,
St Mary's Court,
100 Lower Thames Street,
London EC3R 6JN, UK

Last one came in on time

From Mr P.G.B. Willis.

Sir, "Have you ever heard," asks the chief executive of Crest, the London Stock Exchange's new automated share settlement system ("Farewell to mounds of paper", July 15), "of an IT project of this size being delivered on time and to budget?" Yes, I have. It was introduced on April 9 1979, and was called Talisman, the system which Crest is now replacing.

P.G.B. Willis,
Far Horizons,
Haytor,
Newton Abbot,
Devon TQ13 9XU, UK

FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700
Thursday July 18 1996

The problem of Mr Dole

Whichever way he turns – and he has turned in a number of directions since embarking on his increasingly forlorn-looking campaign for the US presidency – it seems Mr Bob Dole can do nothing right.

Intense public mistrust of the incumbent, his own early nomination by his party, a dramatic resignation from the Senate to campaign from outside the Beltway, a shift from the right to the political centre where elections are won – despite all this, the polls point insistently in the direction of a humiliating defeat for the Republican candidate in November.

Indeed, so grim are the numbers looking that some observers suggest Mr Dole could drag a sizeable group of fellow-Republicans in Congress down with him. What is going wrong for him, and what could he do to put it right?

In fairness, it is partly a matter of what is going right for his opponent. Whatever the shortcomings of his first years in office, President Bill Clinton is nothing if not a brilliant campaigner and a deft stealer of his political rivals' clothes. Nor is the sustained economic upturn over which he continues to preside likely to fuel thoughts of overthrowing him. In any case, challenging an incumbent president who was unopposed for his own party's nomination has rarely been a fruitful exercise in US political history.

Yet there is no getting round the fact that a significant part of the problem is Mr Dole himself. Never an inspirational candidate, the ex-Senator from Kansas has this time fallen short even of his dismal performances during previous bids for the Republican nomination in 1980 and 1988.

Since seeing off populist challengers in the primaries, he has failed to project the semblance of a coherent campaign theme or a message capable of unifying the divided ranks of his party. Instead, he has been repeatedly and unwisely drawn into rhetorical battles over such issues as whether tobacco is addictive and whether a ban on assault weapons should be repealed.

At best these expose poor tactical judgment on the part of him and his handlers. At worst they betray a fundamental confusion about Mr Dole's political identity. This confusion has been evident since the outset of the campaign. Originally he attempted to run from Congress by engaging Mr Clinton in legislative trench warfare. Then, when frustrated by a revived Democratic party, he turned the tables by quitting the Senate to run as "citizen Dole".

It was a gambit fraught with risks. An explicitly anti-Washington campaign was always going to be faintly implausible from a man with such a long career in the capital. And building one around his personal qualities carried the danger that voters – while recognising his undoubted physical courage and political decency – would still find him a trifle uninspiring.

So it has proved. And it is hard to see what Mr Dole can do fundamentally to improve the situation beyond being true to himself, avoiding media manholes, encouraging his party to keep its divisions under control and hoping something will turn up. Framing a distinctive centrist message will be difficult given the success with which Mr Clinton has annexed Republican territory since 1994. Even if the latter runs into further scandal, his challenger will still have a tough hill to climb.

Troubled waters

The government has decided to allow cross-Channel ferry companies to hold merger discussions, freeing them from long-standing restrictions on co-operation agreements. It is vital that this does not lead to cartels depressing competition on this route.

The trigger for the decision is the emergence of the Channel tunnel as a strong competitor, now commanding some 35 per cent of the cross-Channel market. Prices have plummeted, and ferry operators are now making money only from their duty-free operations. Instead of responding to the tunnel by moving ships to other routes they have increased the number of sailings in a desperate attempt to preserve market share.

Ferry operators hope that by being allowed to combine their activities they will achieve an orderly reduction of capacity. But the public benefit of such a policy – which could extend to the pooling of fleets, joint ticket sales and marketing, and price agreements – is questionable.

In itself the rule change need not threaten the status quo. Ministers insist that although discussions will be allowed, normal competition considerations will apply. This would appear to exclude a straightforward merger of the interests of P&O and Stena, the two largest operators on the short-sea routes, with a combined 50 per cent market share. But other undesirable agreements might be attempted. Eurotunnel, of course, might also profit from any price-fixing.

The Channel tunnel has prompted ferry operators to improve their service substantially in the past couple of years. Prices are competitive, and total traffic has grown significantly. These gains must not be jeopardised.

Treasury musings

There is no need to get too excited about the private musings of UK Treasury officials on Britain's prospects at the start of the new millennium. Clever though the officials undoubtedly are, the Treasury is as often wrong as right even about the present. So it must forgive us some scepticism about its efforts to peer into the future.

With characteristic bluntness, Mr Kenneth Clarke, the chancellor, has described Strategic Considerations for the Treasury 2000 to 2005, as the work of "kids at the office". He dismisses its ruminations on the potential for deep cuts in the welfare state as based on "cranky, right-wing" ideas imported from Mr Newt Gingrich and his followers on the other side of the Atlantic.

That said, the leaked report should not be dismissed entirely. The political fuss may be exaggerated, but the document does shed light on the dilemmas Britain will face during the next few years – and on the reluctance of the politicians to confront them.

It explains the world as it might be in five or 10 years' time rather than as the Treasury wants it to be. Thus the document does not promote particular policies. Rather it is designed to inform the Treasury about the right levels and deployment of its own staff. In that respect it has much in common with the scenario planning long undertaken by large corporations such as Shell.

Measured against the self-serving optimism of their political masters, the officials display a refreshing degree of realism about the country's medium-term prospects. It will not be long, they note, before Britain slips from the first division of world economies. Unfortunately, their conclusions as to how best to respond to the challenge seem tinged with the Euroscepticism common among more senior Treasury Mandarins.

More interestingly, the document explores two of the most important issues which will confront governments over the next few years: the size of the public sector and the implications for Britain of the creation of a single European currency.

It considers two scenarios for the welfare state. The first envisages a government led by, say, Mr Clarke (or for that matter Mr Tony Blair) seeking to hold the public sector at roughly its present size. The second sees a right-wing administration, led perhaps by Mr Michael Portillo, which might seek radical retrenchment.

In setting out the options, the officials illuminate the flaws of the present government's attempts to squeeze spending by indiscriminate salami slicing of departmental budgets. Simply to hold the present ratio of spending to national income, some large programmes will eventually have to be scrapped. But the politicians have yet to confront the necessary tough decisions on priorities.

The report similarly illuminates the paucity of reasoned political debate on a single European currency. In or out, economic and monetary union will have immense implications, political and economic. But Conservatives and Labour alike are unwilling to engage the electorate in serious discussion of the pros and cons.

It is healthy that such issues are being debated within Whitehall and a pity that the report has been misrepresented. But the Treasury is the author of its own misfortune. If it has nothing to hide it should abandon its obsessive secrecy and publish the document.

Greenspan's day of judgment

The markets will be following the Fed chairman's congressional testimony today with more than usual interest, says Michael Prowse

Is the US economy fundamentally sound and capable of generating healthy corporate profits for years to come or is this period of business expansion now entering its final stages? In the wake of recent sharp falls in US share prices, this is the crucial question on which Mr Alan Greenspan, the Federal Reserve chairman, will be expected to provide guidance in his monetary testimony to Congress today.

Mr Greenspan's congressional appearances are always closely monitored by global financial markets. But today's is especially significant – and not just because of the turmoil in equity and bond markets. Economists will be scrutinising his testimony – and the Fed's latest economic forecasts – for hints on the likely course of short-term interest rates. One of the triggers for the sudden fall in share prices was a fear that the Fed would shortly reverse direction on monetary policy and begin raising rates in response to tentative evidence of inflationary pressures, particularly in labour markets.

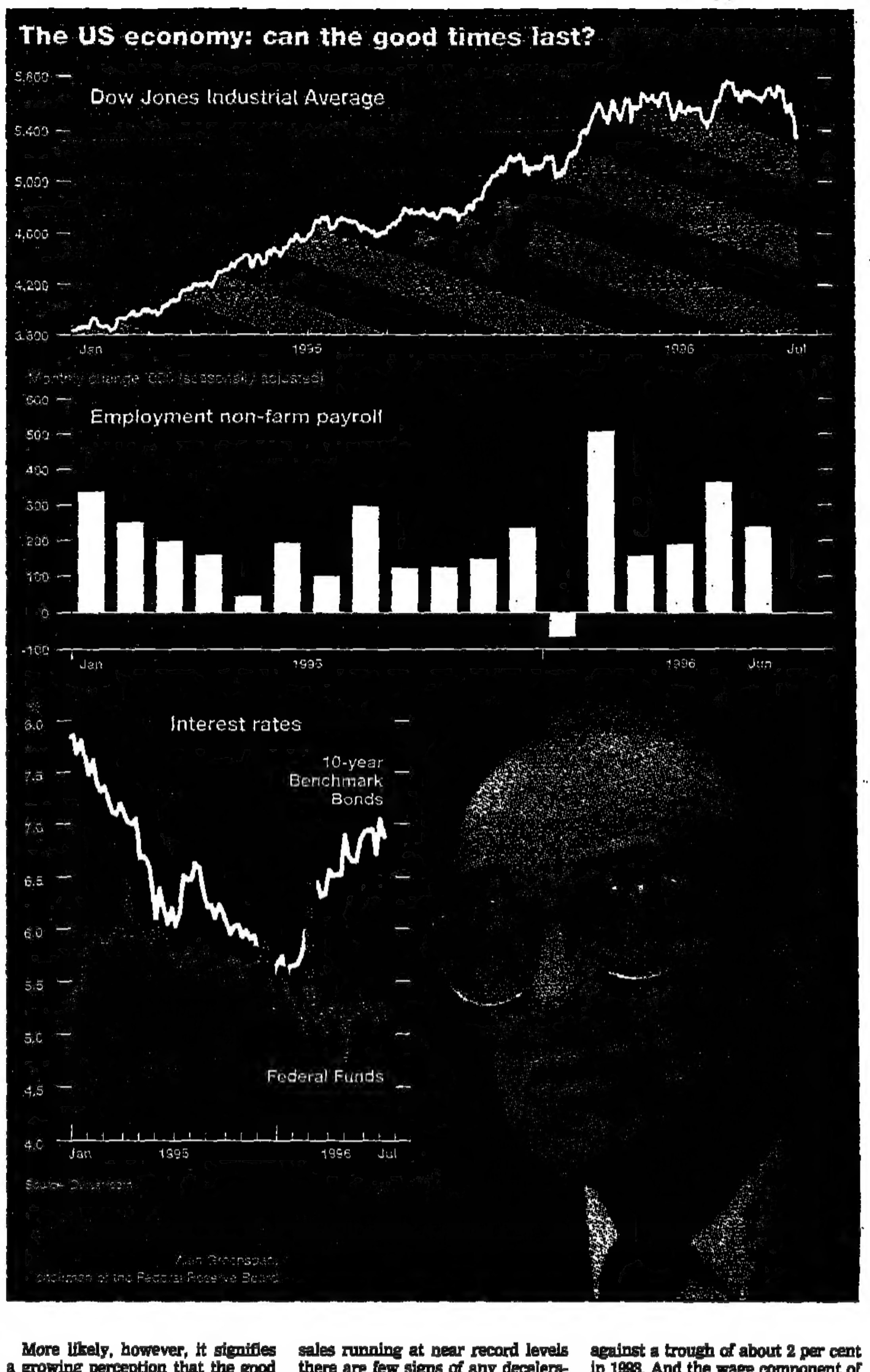
Is this still the Fed's intention? Or does it think falling equity and bond prices will have a sufficiently deflationary impact on the economy to make official policy adjustments unnecessary? Do not expect Mr Greenspan to give explicit answers to such sensitive questions – he is a master of obfuscation. But the tone of his remarks and the way he chooses to characterise the economic outlook should be revealing.

He is likely to start by emphasising how well the US economy has performed in the recent past. Consumers are now enjoying the sixth year of a broadly based economic expansion. Unusually, this has been led by exceptionally strong business investment. The public sector, so often a motor of expansion in the past, has been steadily retrenching. This week the Clinton administration predicted the budget deficit would fall to $117bn in 1996, against $290bn in 1992. This is equivalent to 1.6 per cent of gross domestic product – the lowest ratio since 1974.

Companies, meanwhile, have created an additional 10m jobs in the past four years – showing that loose talk of "downsizing" is quite misleading. This surge in employment has reduced the jobless rate to 5.3 per cent, its lowest level since 1990. In spite of a strong economic upturn, the annual rate of consumer price inflation has been below 3 per cent for several years – and broader price indices suggest the underlying rate of inflation may be closer to 2 per cent.

Corporate profits have risen sharply as a share of GDP, reversing a decline during the inflationary 1970s. And US exports have grown rapidly, in spite of sluggish growth in many overseas markets such as Japan and Europe – testifying to the efficiency of US producers. All in all, as President Bill Clinton recently remarked, the economy appears to be in "the best shape for a generation".

Why, then, the turmoil in the stock market? In part, the recent "mini-correction" is probably just a reaction to past over-exuberance. Ironically the very stability and solidity of the expansion contributed to a mood of over-confidence. By the end of 1994, investors had already enjoyed an impressive 12 year "bull market" in equities. But instead of levelling off, shares then rose a further 45 per cent. Recent selling could thus be interpreted as the mere wiping away of speculative froth.



Alan Greenspan, chairman of the Federal Reserve Board

More likely, however, it signifies a growing perception that the good times cannot persist indefinitely. The trouble, however, is that there is no agreement among economists on what might go wrong. Some emphasise the risk of accelerating inflation – and hence higher interest rates – while others believe a sharp slowdown in growth, if not recession, is imminent.

The "inflation risk" school believes the Fed has been slow to respond to convincing evidence of above-trend economic growth and incipient inflationary pressures. It will thus have to compensate for past inaction by pushing up short-term interest rates significantly over the next year.

Proponents of this view point out that economic growth was faster in the first half of this year than almost anyone (the Fed included) expected. And with car and home sales running at near record levels there are few signs of any deceleration. On the basis of figures on hours worked in recent employment reports, Mr Stephen Roach, chief economist at Morgan Stanley, the New York investment bank, predicts the economy will grow at an annualised rate of 5 per cent in the second quarter and 4 per cent in the third quarter. The economy could still be growing at nearly 3 per cent in the first quarter of next year, well above the 2 per cent widely seen as compatible with stable inflation.

Mr Roach sees a burst of growth when the economy is already fully employed as a sure recipe for higher inflation. As in previous cycles, food and energy prices have moved up first. But broader indices will follow their lead. The annual growth of average hourly earnings is now running at 3.4 per cent against a trough of about 2 per cent in 1993. And the wage component of the more reliable employment cost index soared in the first quarter.

On this reasoning the Fed is already well behind the curve on inflation. Mr Roach expects it to lift the benchmark federal funds rate to 7 per cent by the middle of next year, against 5.25 per cent today. But this monetary tightening – which would push long bond yields well above 8 per cent – would come too late to prevent a significant increase in consumer price inflation to 4 per cent next year.

The "weak economy" school takes a diametrically opposite view. The Fed need not take any action on interest rates because the business expansion is in its final stages. Recent growth rates cannot and will not be sustained in the face of long bond yields of 7 per cent or more. The consumer is over-indebted and must retrench. Business investment, so long the source of growth, is already fading – particularly in the high-tech sectors that were so strong last year.

The Economic Cycle Research Institute in Manhattan, a group of business cycle analysts formerly at Columbia University, worries about the possibility of recession next year. There is little or no danger of an upturn in inflation, claims Mr Anirvan Banerji, the institute's associate director. He dismisses wages as a lagging, rather than leading, index of inflation and says all the signs point to subdued price increases for the foreseeable future. Their future inflation gauge is falling, rather than rising sharply as in early 1994, he says.

According to the institute, the bigger danger is that growth will falter. Its long-run indicator of economic activity began to flatten last January, suggesting sluggish growth early next year. This would leave the economy vulnerable to external shocks that could result in recession.

Most economists – Mr Greenspan included – will probably position themselves somewhere between these extremes. Given the low jobless rate they are braced for some increase in inflationary pressures. Perhaps the most eagerly awaited statistic in coming weeks is the employment cost index for the second quarter, due out on July 30. If this shows another sharp increase in wages, fears of inflation will multiply and the Fed will probably hasten to raise interest rates. But if it and other inflation measures stay subdued, the tone of the bond market could improve markedly.

At the same time some deceleration of growth is widely expected after the buoyant summer months, although not to the point of tipping the economy into recession. The "mainstream" reading of events is thus that the stock market is reacting to a double squeeze on corporate profits. As is typical in the late stages of a business cycle, economic growth is slowing while wages and other production costs are rising. "We are seeing labour gain relative to businesses for the first time in a while," says Mr Paul Mastroddi of the Lattanzio Group, a newly formed hedge fund in Manhattan. It is only natural that investors should adjust to a "tougher environment for profitability".

The profit squeeze is most evident in the high-technology sector which has accordingly seen the steepest declines in share prices. But while predicting some downward pressure on the growth of corporate profitability, few economists regard the gyrations of the high-tech sector as a reliable guide to broader economic trends. No other sectors, for example, are seeing the kind of price declines experienced by computer manufacturers.

These economic cross-currents leave the Fed in a delicate position. Having underestimated growth and price increases this year, Mr Greenspan will probably emphasise the risk of higher inflation and try to prepare Congress for the possibility of higher interest rates. But with financial markets so volatile and the prospects for growth so uncertain, it seems unlikely that he is contemplating more than a minor tightening of policy in August. But then gradualism has been the hallmark of the Greenspan Fed – in good times as well as bad.

· OBSERVER ·

Anonymous no more?

■ Joe Klein is the star political columnist for Newsweek, churning out pretty good stuff regularly for his magazine.

According to yesterday's Washington Post, he was doing a little bit more than that a couple of years ago.

It has fingered him as Anonymous, the author of *Primary Colors*, the rollicking, satirical political novel broadly based on Bill Clinton's 1992 presidential campaign – and, for once, Klein's denials are less than absolute.

The Post nailed him (it thinks) through a handwriting expert who compared Klein's scrawl with the author's manuscript notes. This is not the first time that forensic science has been used in the search for Anonymous.

Earlier this year a university professor used computer analysis to compare the writing style in *Primary Colors* with those of a number of selected authors and concluded, through a fondness for certain adjectives, that Klein was the man.

But the professor's sample was small and Klein's denial adamant. Other sleuths were deterred by the fact that a reporter in the book, who seemed rather like Klein, was cast in an unfavourable light. There were also doubts that any working journalist could have produced a book so conspicuously well-written.

But when the Post called him at his vacation home with its latest evidence he merely replied "no comment", later supplemented with "I've said all that I have to say".

In a culture steeped in the Nixonian world of "non-denial denials", that passed no muster.

One of his Newsweek colleagues wondered yesterday if unmasking might affect Klein's marketability as a columnist. He should worry: the film rights to *Primary Colors* have been sold for upwards of $6m and most speculation now is on who gets to play the Bill and Hillary parts.

But if it is all true, at least Klein can play himself.

Long shot

■ The Organisation for Economic Co-operation and Development – that likes to pontificate on countries' growth rates – is growing nicely itself, at least by the yardstick of verbosity. Over the past decade the size of the OECD's annual tome on Switzerland, published yesterday, has more than doubled, from 61 to 134 pages.

A slight hiccup in 1993-94 notwithstanding, the upward trend has been resumed in the current year with a bumper 18.5 per cent increase in the number of pages – even though Switzerland is not one of the world's larger countries.

These figures, in turn, do not tell the full story, since they fail to take account both of the rapid growth in footnotes and of the recent enthusiasm for adding a bibliography to the usual lists of statistics.

Both sectors have flourished, with the number of footnotes rising from less than 20 to 167 over the last decade. On present projections, one should be looking for a five page plus bibliography section next year.

Judging by the experience of Switzerland, the OECD is also taking longer to reach a conclusion.

In 1986, it needed less than three pages. This year, the OECD has set aside a record 10 pages for a final assessment of its views on Switzerland – a growth rate of more than 50 per cent.

Coining it

■ After swallowing their resentment over losing the centennial modern Olympic Games to Atlanta, the Greeks are trying to bring the games to Athens in 2004. But knowing that competition will be stiff – Cape Town looks a strong contender – they are trying a new tactic.

Loukas Papademos, the central bank governor, has been chosen to set out Greece's stall in Atlanta on the eve of the official opening ceremony. Papademos makes no claims to sporting achievement – he has trouble remembering the names of Greece's weight-lifters, several of whom are hot medal prospects – but he's scored several points with Juan Samaranch, the powerful International Olympic Committee chairman.

Samaranch was particularly enthusiastic about a set of commemorative coins for the Atlanta Games, issued by Greece's mint, a department of the central bank. It probably helps that proceeds from sales of coins, which will be launched tomorrow in Atlanta, will go into the IOC's kitty.

Finally stumped

■ Just as well that ING Barings has settled its row with Deutsche Morgan Grenfell over the poaching of 72 of its Latin American equities staff.

Peace broke out earlier this week – just in time for the annual cricket match between the two banks, which took place yesterday at Buckhurst Hill in Essex.

To settle ING Barings' $10m claim for damages, DMG agreed this week not to solicit anyone from ING Barings' staff until December.

The Deutsche Bank unit reckons the concession is insignificant, but ING Barings has one consolation. DMG could not apply to the cricket field its usual business tactic of pinching its opponents' best players.

Financial Times

100 years ago

Associated Tea Estates of Ceylon
The capital is £150,000 divided into 8,000 6 per cent. cumulative. preference and 7,000 ordinary £10 shares, of which 6,000 of the former and 5,000 of the latter are now offered up for subscription.

E.Bishop And Sons
It has a capital of £180,000, in £1 shares, in equal proportions of 6 per cent. cumulative, preference and ordinary, and they announce an issue of 75,000 preference, and 40,000 ordinary. The prospectus points out that the company acquired as a going concern the old-established business of pianoforte manufacturers carried on by Messrs.E.Bishop and Sons.

50 years ago

Cape Asbestos
Mr. Robert Walker, chairman of the Cape Asbestos Company, takes a cautious view of the near outlook for the business. On the demand for asbestos manufactured goods alone the prospect is bright, but the meeting of that demand is conditioned by such restrictive factors as labour shortages and controls which are hindering the planning of production and the procuring of equipment. Once these handicaps are removed there seems no reason why the chairman's confidence in the longer-term prospect should not prove justified.

FINANCIAL TIMES
Thursday July 18 1996

Closure deals further blow to Penang economy

Grundig shuts Malaysian factory as demand falls

By James Kynge in Kuala Lumpur

Grundig (Malaysia), part of Philips' loss-making German subsidiary, is to close its plant in Penang. The move is a setback for the Malaysian island which had become a booming centre for electronics manufacturers.

Grundig's move follows last week's announcement by US manufacturer Hewlett-Packard that it was shutting the disc drive division of its Penang operations.

Hewlett-Packard, however, is retaining the larger part of its Penang operation which makes tape drives, optical juke boxes and CD-writers.

Quantum Storage, a Japanese hard disc drive manufacturer, intends to wrap up its operations in Penang by the end of the month with the loss of 1,360 jobs.

It hopes that many of the displaced workers will find employment in its sister company in Penang, Quantum Peripherals, which also makes disc drives.

An executive at Grundig (Malaysia) said the closure would result in 600 job losses and was due to falling European demand for radios, cassette players and compact disc players made by the factory.

He believed the Penang closure was a one-off decision and not part of a global restructuring drive.

Slack international demand has also prompted several other factories to start reducing production by limiting overtime, closing for long weekends and freezing recruitment on the island, off Malaysia's west coast, where a quarter of the workforce is employed in the electronics sector.

Executives in Penang cautioned that the closures did not mean the island was no longer a profitable manufacturing location.

However, wage increases are now far outstripping productivity gains, prompting some manufacturers to relocate to areas with lower labour costs.

Another issue is a severe shortage of skilled labour, which has led to engineers and skilled workers threatening to leave unless they are given pay rises. Because of the labour shortages in Malaysia, an estimated 20 per cent of the 8m workforce are foreigners.

Malaysia's government has long maintained that labour intensive, lower-tech companies are likely to depart as the country heads toward its goal of becoming fully industrialised by 2020.

But senior officials recently criticised an average manufacturing wage rise of 11.7 per cent in the first quarter, compared with a rise in productivity of 6.1 per cent.

Penang's slowdown is indicative of wider trends. Malaysia's industrial production index in May fell 2.2 per cent from April. The electronics production index grew 10.9 per cent in May – a much slower rate than the 23.3 per cent rise in April.

With electronics accounting for 18 per cent of manufacturing output and 30.5 per cent of exports, the slowdown is likely to lead to lower exports despite an expected upturn in global electronics demand towards the end of the year.

France to reduce its troops in Germany to 3,000

By David Owen in Paris and Bernard Gray in London

France yesterday announced a massive reduction of its military personnel in Germany, to leave only 3,000 French troops there by the end of 1999 compared with about 20,000 at present.

The troop withdrawals, part of a comprehensive streamlining of French armed forces, may heighten tensions between France and Germany over military co-operation.

The announcement follows a decision by the French government to cut several Franco-German arms programmes and a move by Germany to review a number of Franco-German weapons projects.

The French decision to remove almost all troops from Germany might encourage other Nato members to follow suit. Almost 100,000 US troops are still in Europe, most of them stationed in Germany, while the UK has 25,000 troops there.

Both countries have budget difficulties which could be eased by withdrawing troops from overseas bases. However, a presence in Germany is thought by many military officers to be critical for maintaining the "glue" in the Nato alliance.

The package was unveiled yesterday by Mr Charles Millon, the French defence minister, just three days after the traditional Bastille Day military parade. It calls for the disbanding of 38 regiments, the closure of three air bases and the mothballing of the near-obsolete aircraft carrier, the Clemenceau.

The cuts stem from President Chirac's decision earlier this year to end nearly a century of military conscription and to peg defence spending for 1997-2002 at an annual FFr185bn ($35bn), split between FFr99bn for pay and FFr86bn for equipment.

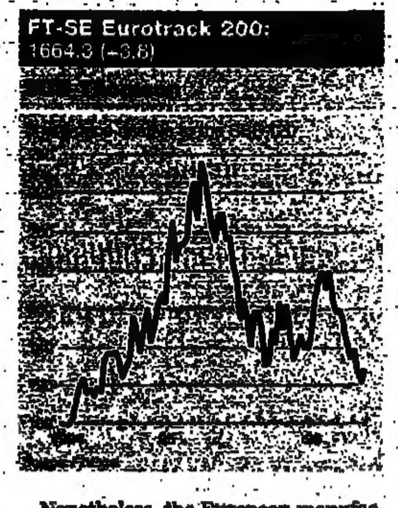
The aim is to create a fully-professional force much smaller than the current conscripted army but packing a bigger punch at approximately the same cost. Over the next six years as conscription is phased out, the French army will shrink by 36 per cent, the navy by 19 per cent and the air force by 24 per cent.

Mr Millon said the maintenance of the remaining French forces in Germany was in accordance with the wishes of Mr Helmut Kohl, the German chancellor. It also symbolised the Franco-German alliance and affirmed "in a very concrete way" French attachment to the Eurocorps, a Franco-German armoured brigade designed as the nucleus of a bigger European military force.

He indicated that "certain French-based regiments" would participate in Eurocorps. Eleven of the 38 regiments earmarked for disbanding are currently stationed in Germany.

THE LEX COLUMN

Competition Time



From the sketchy details so far available, the US anti-trust authorities have struck a blow for a more competitive media market. The Federal Trade Commission will allow Time Warner to acquire Turner Broadcasting, but Mr John Malone's Tele-Communications Inc (TCI) will have to sever its links with Time as part of the deal.

The big concern was that Time, Turner and TCI would operate as a single bloc. Their joint dominance of both cable channels and networks would have allowed them to dictate terms in US cable TV. Now with Mr Malone promising to spin off TCI's stake in Time and TCI's favourable deal to receive Time's channels for 20 years being annulled, the two groups will probably not act as a single entity. Indeed, there will be incentives to compete.

The new Time Warner/Turner combination looks particularly vulnerable. It will no longer be able to rely on TCI to promote its channels like CNN, the Cartoon Network and HBO. Mr Malone has already cut a deal to carry Mr Rupert Murdoch's new 24-hour news channel, which will be direct competition to Turner's CNN.

With the Turner deal nearly clinched, the position of Mr Gerald Levine, Time's much-maligned boss, looks more secure. But he still has much to prove, given the dismal performance of the company's share price since he took over. Not only is the $7.5bn Turner acquisition extremely expensive; Mr Levine, who has struggled to control Time Warner's existing collection of warring baronies, must now show he is up to managing an even bigger behemoth.

Semiconductors

Intel and SGS-Thomson have both demonstrated that life in the semiconductor industry is not as bad as has been suggested by the recent high-tech share sell-off. Commodity D-Ram memory chip prices may have dropped by two-thirds from their 1995 peak, but manufacturers are adjusting. Production is being cut and capacity increases are being either phased or cancelled. Meanwhile, producers of high value added products are delivering substantial growth.

The main challenge is that component suppliers to the computer industry are having to cope with a rapid drop in lead time for orders – a natural accompaniment to the fall in component prices. And Hewlett-Packard's recent profits warning offers little hope for a short-term pick-up in the US, while the plight of Escom suggests problems in Europe.

Nonetheless, the European manufacturers look reasonably well insulated from the plight affecting US D-Ram producers. They have significantly less exposure to personal computers, particularly in the US, and continental European economies are only just clawing their way out of recession. Moreover, both SGS-Thomson and Philips, and to a lesser extent Siemens, have a low proportion of sales from commodity chips. There is little doubt about the strength of longer-term demand for semiconductors, and with Philips and SGS-Thomson maintaining planned capital expenditure levels they are well placed to benefit from future growth. But until there are signs of a pick-up in consumer confidence in European markets this may not be reflected in stock prices.

News Corp

Mr Rupert Murdoch has, unusually, found himself over a barrel. So keen is the News Corporation chairman to beef up Fox, his US terrestrial TV network, that he has had to pay Mr Ron Perelman's New World Communications top dollar for its TV stations.

The strategic logic is clear. Together with Fox's existing stations, the broadcaster now has its own distribution network covering 40 per cent of the US – the maximum allowed by the regulations and more than NBC, ABC and CBS, the other big networks. The advantage of owning a critical mass of stations is that News Corp now has a secure outlet for programmes and a platform for developing new products. Ideally, this will fuel a virtuous circle, with better programmes spurring higher ratings and in turn allowing investment in better programmes.

Moreover, a strong US terrestrial network is important as part of Mr Murdoch's broader global TV strategy. Though satellite and cable networks are growing fast, they do not command nearly as many viewers and so cannot justify the same levels of programming expenditure. But, up to a point, once products have been developed or acquired for Fox, they can be distributed through Mr Murdoch's global empire.

In the circumstances, it is unsurprising that Mr Perelman has squeezed out a high price. Once debt is included, News Corp is paying $3bn for the 80 per cent of New World it does not already own. Even after making allowance for the fact that a production business is being thrown in with the TV stations, that still works out at a hefty 16 times next year's expected operating cash flow.

Derivatives

Regulators everywhere have been overwhelmed by the explosive growth in the use of derivatives. Yesterday it was the turn of the UK's Accounting Standards Board to try to catch up.

As a first step, the ASB is right to concentrate on ensuring proper disclosure. Most companies these days hedge their exposure to interest rates and currencies with instruments like swaps or forward contracts – but you would never guess it from their accounts. The collapse of Metallgesellschaft and Barings shows that when derivatives go wrong they can go very wrong. That does not mean there is a potential disaster hiding inside every widget manufacturer. But derivatives can change a company's risk profile almost overnight. The board's solution is to have companies describe how they use derivatives and to back this up with details of their interest rate, currency and debt profiles. This should help investors to spot trouble earlier.

The second, much trickier, issue is how to measure derivatives. The ASB's proposal to mark derivatives to market has the virtue of mirroring internal company practice. But to remain consistent, the board has been forced to extend current market values to all financial instruments, including conventional loans. This would transfigure balance sheets and will raise howls of protest from industry and accountants, who are already deeply divided over the merits of current cost and historical cost accounting. That debate must not be allowed to delay the vital goal of improving disclosure as quickly as possible.

Additional Lex comment on United Utilities, Page 17

UK insurers to hire expert to aid genetic testing policy

By Clive Cookson and Motoko Rich in London

The UK insurance industry is to appoint a genetic adviser to help companies formulate a policy on the controversial issue of genetic testing.

The announcement yesterday by the Association of British Insurers came on the first anniversary of a report by a parliamentary science committee which gave the industry 12 months to produce a code of conduct for preventing unfair discrimination against people found to be carrying harmful genes.

MPs will debate the issue tomorrow. Last night, geneticists accused the industry of making the minimum possible response to the MPs' deadline and of failing to face the issues involved.

"Serious discussion of how the insurance companies might elaborate a code of conduct has scarcely begun," said Mr David Shapiro, executive secretary of the Nuffield Council on Bioethics, which has led the UK debate on genetic testing.

"It needs to be pushed forward with vigour, as we are entering an era in which we will know about genetic predisposition to common disorders such as heart disease and cancer."

But Mr Mark Boléat, ABI director-general, said the appointment of a medically qualified "genetic adviser" from outside the industry was just one of a series of initiatives. "We aim to draw up a code of conduct, to set down sensible arrangements for the handling of genetic information."

Mr Paul Smee, head of life assurance at the ABI, said the industry had delayed the publication of the code because it was a "difficult issue". The industry wanted "to get it right rather than get it by July 19".

A provisional version of the code says the industry will not itself conduct genetic tests to obtain information about clients.

"The industry wants to sell insurance. We do not want to find exciting ways to stop people from buying it," said Mr Smee.

He said the industry was more likely to use genetic information if it was voluntarily submitted by potential policy holders who allow access to private medical records.

In the US, 13 states have defied lobbying by the insurance industry and passed legislation prohibiting health insurers from using genetic information from applicants' medical records.

Genetic test manufacturers such as Myriad, the Utah-based biotechnology company that is developing a test for breast cancer genes, support such legislation because they believe it will give people more confidence in using their products.

Mr Barry Millard, marketing director of University Diagnostics, a London-based testing company, said UK law should protect genetic privacy in the same way. "Test results should be totally confidential to the patients and their healthcare provider."

Transfers

Continued from Page 1

those transferred as part of their career progression or to a permanent job. The latter usually receive a one-off payment at the start of their assignment.

Management Moves in Europe. Monks Partnership. The Mill House, Wendens Ambo, Saffron Walden, Essex CB11 4JX

US sanctions move angers EU

Continued from Page 1

president's hands in foreign policy by requiring sanctions.

US trade partners remain concerned about aspects of the Helms-Burton Act, particularly Title IV, which provides for executives of companies "trafficking" in Cuban property and their families to be barred from the US.

Washington this month warned directors and executives of Toronto-based Sherritt International that they would be barred from the US unless the mining company pulled out of Cuba by the end of August.

Canada maintains that Title IV contravenes the "free passage" provisions of the North American Free Trade Agreement.

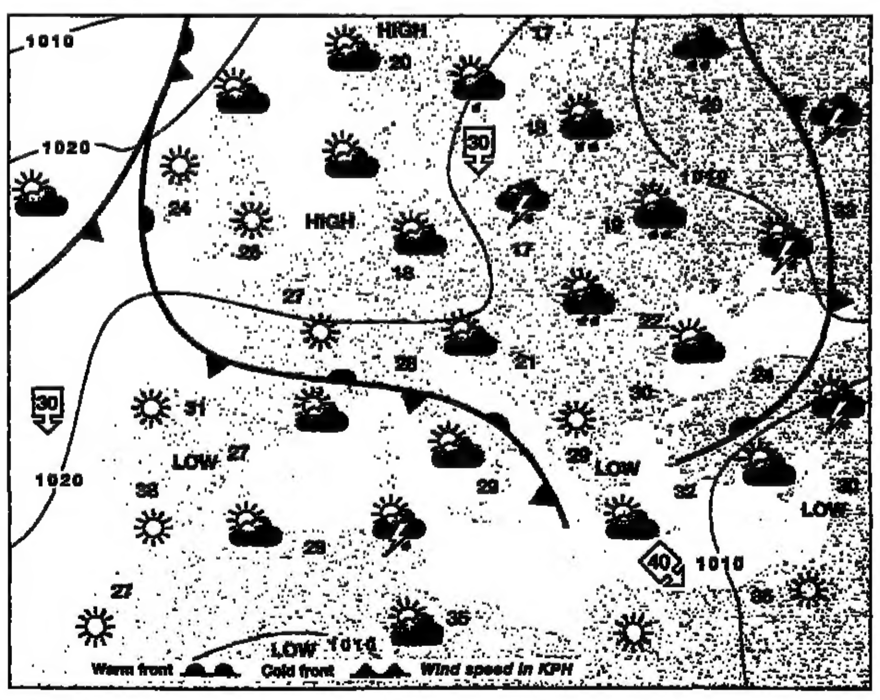
FT WEATHER GUIDE

Europe today

High pressure will produce abundant sun and warm temperatures over the British Isles but high cloud will partially dim the sun in northern Ireland and Scotland as a weak front approaches from the Atlantic. East of the high, northerly winds will direct patches of cloud to the Benelux but the afternoon will be sunny. Southern Scandinavia, Poland and Russia will continue to have showers and thunderstorms. Northern and central France and Portugal and Spain will be dry and sunny. A mixture of sun and cloud is expected near an old front stretching over southern France and Italy but showers are unlikely. Another front will trigger thunder storms in northern and central Turkey.

Five-day forecast

The British Isles will continue rather sunny and warm but rain is likely in the north next week. Showers and thunder storms will occur in eastern Europe. A warming trend is expected in the Benelux, Germany and the Alps. Spain and Portugal will be sunny. The rest of the Mediterranean will have a lot of sun but thunder storms will erupt over Italy during the weekend.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	fair	44
Accra	cloudy	28
Algiers	cloudy	29
Amsterdam	fair	19
Athens	fair	30
Atlanta	fair	36
B. Aires	fair	15
B.ham	sun	25
Bangkok	thund	36
Barcelona	fair	27
Beijing	rain	32
Belfast	fair	24
Belgrade	fair	21
Berlin	fair	18
Bermuda	fair	30
Bogota	thund	19
Bombay	rain	31
Brussels	sun	21
Budapest	cloudy	20
C.hagen	fair	19
Cairo	sun	35
Cape Town	sun	17
Caracas	cloudy	32
Cardiff	sun	25
Casablanca	sun	27
Chicago	fair	33
Cologne	fair	20
Dakar	fair	30
Dallas	fair	36
Delhi	fair	34
Dubai	sun	45
Dublin	sun	23
Dubrovnik	sun	27
Edinburgh	fair	22
Faro	sun	29
Frankfurt	sun	22
Geneva	sun	26
Gibraltar	sun	28
Glasgow	sun	23
Hamburg	cloudy	18
Helsinki	cloudy	17
Hong Kong	thund	32
Honolulu	fair	31
Istanbul	fair	26
Jakarta	fair	31
Jersey	sun	20
Karachi	fair	35
Kuwait	fair	43
L. Angeles	sun	26
Las Palmas	sun	28
Lima	cloudy	19
Lisbon	sun	32
London	sun	26
Lux.bourg	sun	22
Lyon	sun	27
Madeira	fair	26
Madrid	sun	36
Majorca	sun	30
Malta	sun	30
Manchester	sun	24
Manila	thund	35
Melbourne	rain	14
Mexico City	fair	22
Miami	fair	32
Milan	fair	27
Montreal	thund	30
Moscow	shower	20
Munich	sun	21
Nairobi	thund	25
Naples	fair	29
Nassau	fair	32
New York	thund	33
Nice	fair	28
Nicosia	fair	31
Oslo	fair	21
Paris	sun	27
Perth	shower	17
Prague	fair	17
Rangoon	shower	30
Reykjavik	rain	12
Rio	cloudy	22
Rome	fair	30
S. Frsco	sun	20
Seoul	cloudy	28
Singapore	fair	30
Stockholm	shower	17
Strasbourg	sun	24
Sydney	cloudy	18
Tangier	sun	31
Tel Aviv	fair	33
Tokyo	cloudy	31
Toronto	thund	30
Vancouver	rain	18
Venice	fair	26
Vienna	fair	20
Warsaw	thund	17
Washington	thund	33
Wellington	shower	12
Winnipeg	fair	27
Zurich	sun	23

هكذا من الأهل